Union Calendar No. 806
82d Congress, 2d Session - - - - - - House Report No. 2519

COORDINATION OF FEDERAL, STATE, AND LOCAL TAXES

REPORT

TO THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

EIGHTY-SECOND CONGRESS

PURSUANT TO

H. Res. 414, 82d Congress

A RESOLUTION AUTHORIZING AND DIRECTING CERTAID STUDIES AND INVESTIGATIONS TO BE CONDUCTED BY THE COMMITTEE ON WAYS AND MEANS

JANUARY 3, 1953.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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LETTER OF TRANSMITTAL

Committee on Ways and Means,
House of Representatives,
Washington, D. C., January 3, 1953.

Hon. Ralph R. Roberts,
Clerk of the House of Representatives,
Washington, D. C.

Dear Mr. Roberts: Pursuant to House Resolution 414, Eighty-second Congress, which directs—

> That the Committee on Ways and Means is authorized and directed to further investigate and study the means and method of accomplishing the elimination of competition, overlapping and duplication of sources of Federal, State, and local government taxes, and to report back to the House its recommendations with respect thereto before the close of the present Congress,

there is transmitted herewith a report of the Subcommittee on Coordination of Federal, State, and Local Taxes of the Committee on Ways and Means, which was approved and adopted unanimously by the Committee on Ways and Means for filing with the House of Representatives pursuant to the following resolution agreed to unanimously by the committee on January 3, 1953:

> *Resolved,* That the report of the Subcommittee on Coordination of Federal, State, and Local Taxes be approved and be adopted as a report of the Committee on Ways and Means to the House of Representatives.

Sincerely yours,

Jere Cooper,
Acting Chairman, Committee on Ways and Means.

Union Calendar No. 806

82d Congress, 2d Session } HOUSE OF REPRESENTATIVES { Report No. 2519

COORDINATION OF FEDERAL, STATE, AND LOCAL TAXES

January 3, 1953.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. Cooper, from the Committee on Ways and Means, submitted the following

REPORT

[Pursuant to H. Res. 414, 82d Cong.]

Your Subcommittee on Coordination of Federal, State, and Local Taxes was established by your committee on October 25, 1951, pursuant to House Resolution 414, Eighty-second Congress, which directs—

> That the Committee on Ways and Means is authorized and directed to further investigate and study the means and method of accomplishing the elimination of competition, overlapping, and duplication of sources of Federal, State, and local government taxes, and to report back to the House its recommendations with respect thereto before the close of the present Congress.

Your subcommittee requested that representatives of organizations of State and local government officials as well as the Treasury Department submit suggestions to it on the problem of Federal, State, and local tax coordination. On March 12, 1952, at the suggestion of the executive director of the Council of State Governments, a conference was held by your subcommittee with the following representatives of State and local governments and organizations:

The Committee of Governors on Federal-State Relations, represented by Gov. Alfred E. Driscoll, of New Jersey, chairman; Gov. Walter J. Kohler, Jr., of Wisconsin; Gov. Adlai E. Stevenson, of Illinois; and Mr. Robert F. Steadman, controller, Department of Administration of Michigan, representing Gov. G. Mennen Williams.

The American Municipal Association, represented by Mayor W. B. Hartsfield, of Atlanta, Ga.; John H. Witherspoon, comptroller of the city of Detroit, Mich.; and Fred A. Schuckman, director of the association's Washington office.

The Federation of Tax Administrators, represented by Eugene G. Shaw, Commissioner, Department of Revenue of the State of North Carolina, and Charles F. Conlon, executive director.

The Council of State Governments, represented by Frank Bane, executive director, and Theodore Driscoll, assistant director.

The United States Conference of Mayors, represented by Paul V. Betters, executive director.

The National Association of County Officials, represented by Keith L. Seegmiller, secretary.

Also present were representatives of the Treasury Department of the United States and of the staff of the Joint Committee on Internal Revenue Taxation.

Governor Driscoll, of New Jersey, as chairman of the Committee of Governors on Federal-State Relations and as principal spokesman for the State and local officials and their organizations, stressed the fact that the problem of State and local relationships and of duplications in sources of revenue are "growing increasingly complex with the passage of time." He summarized the ill effects of excessive duplication and overlapping in taxes as follows:

1. They may result in undue concentration of tax charges on a narrow range of economic activity. This may distort the whole pattern of investment and employment.
2. They limit the degree to which local governments have freedom in securing revenue sources to meet their needs.
3. They increase the cost of administration of collecting the taxes.
4. They irritate and annoy the taxpayer who is already heavily burdened by the obligation to pay. He has to face double or triple tax-reporting systems.
5. They reduce efficiency in the operation of State government due to a duplication of administration and responsibility.

Although the representatives of the State and local governments were very concerned about the problem of tax duplication and overlapping, they felt a more fundamental problem in inter-government relationships is the question of government functions and which of the various levels of government can and should more properly assume the responsibility for them.

Governor Driscoll summarized the position of the State and local governmental officials represented at the conference by stating:

> We cannot, in our judgment, consider the tax and revenue problems of local, State, and Federal Governments without a comprehensive appraisal of the functions, the duties, and the responsibilities of the various levels of government. We believe that now is the time for such a comprehensive study and appraisal, both functional and financial.
>
> Our chief recommendation is, therefore, that the Congress establish at the earliest possible time a commission charged with duty and the responsibility of studying Federal, State, and local relationships and submitting an action program designed to strengthen the foundations of our American system, based to every extent possible upon local responsibility, local control, and local self-government.

The State and local officials then endorsed Senate bill 1146, Eighty-second Congress, as establishing a sound approach to the problem of determining which governmental functions should be the responsibility of the various levels of government. It was their feeling that once this determination is made there can be a more realistic approach to the problem of duplication and overlapping in sources of revenue by the various governmental levels; and, in fact, it was stated that once functions were properly allocated "the question of taxes begins to solve itself." It was also felt that such a study would need to be comprehensive and therefore would, of necessity, require a rather prolonged period of time for completion.

Senate bill 1146, Eighty-second Congress, was reported from the Senate Committee on Government Operations and passed the Senate on July 23, 1951. However, it was recalled after a motion was entered to reconsider the vote by which the bill passed. No further action was taken on the bill before the Congress adjourned.

This bill would establish a temporary National Commission on Intergovernmental Relations. The Commission would consist of 12 members, of which 4 would be appointed by the President, 4 by the President of the Senate, and 4 by the Speaker of the House—2 from their respective branches of the Government and 2 private citizens. It would be the duty of the Commission to submit to the Congress specific recommendations, including proposed constitutional amendments, legislative enactments, and administrative actions as deemed necessary to carry out its recommendations. As a basis for recommendations, the Commission would be directed to study, among other things, the past and present allocation of governmental functions and powers among the National, State, and local governments of the United States and the fiscal relations among the National, State, and local governments "with a view of determining the possibilities, and mechanism for achieving, on a continuous basis, consistency in the fiscal policies of the several levels of governments."

In making its study, the Commission would be directed to give particular attention to the following areas of Federal, State, and local tax coordination:

(1) Intergovernmental tax immunities in terms of the problems they create for governments and taxpayers, and means for resolving these problems;

(2) Revenue sources and means for reducing or eliminating intergovernmental tax competition; and

(3) Grants-in-aid, tax sharing, and other similar measures for adjusting financial resources to the needs of State and local governments, with a view to proposing guides to the use of such devices and improvements in their operation.

The representatives of State and local governments preferred a Commission with broad authority as provided in S. 1146 over a Commission whose authority would be limited to an investigation and study of duplication and overlapping in Federal, State, and local taxes, and the means and methods of accomplishing the elimination of such duplication and overlapping, which is the type of Commission that has been proposed in legislation which has been referred to the Committee on Ways and Means. Their reason for this preference was that the latter-type Commission whose duties would be limited to a study of duplication in, and coordination of, taxes would run into the question of functions and would be lacking in jurisdiction to study and investigate functions.

At the request of your subcommittee the Secretary of the Treasury directed the Tax Advisory Staff of the Treasury Department to prepare a study of Federal, State, and local tax coordination. This study dated March 7, 1952, is a factual and analytical study which goes into the development of intergovernmental tax problems, describes certain tax coordinating methods which have been suggested and studied in the past, and sets forth various information and statistics on tax duplication and overlapping. It brings up to date the study of the problems of tax coordination which was first made in 1941 by a special committee appointed by the Secretary of the Treasury and which was published in 1942 with the title "Federal-State and Local Government Fiscal Relations" (S. Doc. 69, 78th Cong., 1st sess., 1943).

The study points out that over the years a wide variety of tax coordination techniques have been developed by experimentation under our Federal system of government. The study recognizes that separation of revenue sources is the coordination device generally preferred by spokesmen for State and local governments. In addition to separation of sources, however, the study lists the following tax coordination devices:

(1) Tax sharing: Under which the Federal Government would collect certain taxes and share a portion of the revenue with the States and their subdivisions; such proposals have been made with respect to taxes on cigarettes and alcoholic beverages.

(2) Deductibility: The practice of one jurisdiction permitting the deduction of taxes levied by other jurisdictions; for example, the Federal Government allows the deduction of State individual and corporate income taxes in determining net income for Federal tax purposes, and some of the States permit similar deduction of Federal taxes.

(3) Tax credits: An arrangement under which taxpayers are allowed to claim taxes paid to States as a partial credit against Federal tax liability; this device has been used in the field of transfer taxes at death and the unemployment insurance tax.

(4) Uniformity of tax bases and methods of tax computation: A type of coordination exemplified by the trend toward conformity of State definitions of taxable income with the Federal definition.

(5) Tax supplements: A high degree of coordination obtained by the use of an identical tax base by both the Federal Government and the States.

(6) Administrative cooperation: Under which Federal, State, and local tax officials exchange audit information and cooperate in other areas of tax administration.

Although the Treasury tax study makes no specific recommendations, the following analysis of the problem of Federal, State, and local tax coordination suggests that rapid and sudden progress, whether on the part of committees of Congress or a special Commission created by act of Congress, is not to be expected:

This examination of recent developments indicates that a variety of Federal-State-local tax coordination devices are now being used and considerable progress is being made both in Federal-State and State-local tax relations. Much of this has been accomplished without legislative action or public attention and through informal conferences and agreements between Federal, State, and local officials. It suggests that more could be accomplished by a concerted effort to make fuller use of coordination devices proved to be effective.

American experience makes it clear that tax coordination does not necessitate periodic upheavals. Intergovernmental tax relations inevitably have to be revised to accord with changing conditions but this can best be handled through a gradual process of adjustment. Among those concerned with the problem there is a growing realization that it is one of evolving institutional arrangements which can be shaped and reshaped to meet changing conditions. The record of intergovernmental tax relations during the past 30 years is the record of just that process, and realism suggests that this process must continue. In this way, the federal system of government makes full use of its flexibility in adapting itself to changing conditions.

CONCLUSION

The problem of duplication and overlapping in taxes is one of vital importance to all levels of government. Your subcommittee believes that an eventual solution of this problem can be made only after prolonged and comprehensive study on the part of all levels of governments.

The Committee on Ways and Means both in connection with its legislative jurisdiction and the duty with which it is charged under the Legislative Reorganization Act of 1946 to "exercise continuous watchfulness of the execution by the administrative agencies concerned of any laws, the subject matter of which is within the jurisdiction of such committee" must keep constantly in mind the interrelation between the Federal tax statutes and the taxes imposed by State and local governments. Any proposals as to the solutions of this problem are always a matter of interest to, and study by, the Committee on Ways and Means. The staffs of the Joint Committee on Internal Revenue Taxation and the Treasury Department have also devoted a considerable amount of time to studying this subject.

The complexities of this problem and the difficulty of reaching even general agreement on it are further pointed out by the admission at the conference on March 12, 1952, that it was very probable that no two States would completely agree as to what would be a proper allocation of taxes between the Federal Government and State and local governments. If it were possible for State and local governments to reach an agreement on what would be a proper allocation of revenue sources among themselves and the Federal Government, this would be of material aid in reaching agreement with the Federal Government as to a solution of the tax duplication and coordination problem.

Your subcommittee recommends that the Committee on Ways and Means give consideration to the advisability of further study on this subject in the Eighty-third Congress. Your subcommittee is of the opinion that any immediate results of such a study would have to be controlled to a large extent by the revenue needs of the Federal Government. However, it would be very valuable to have the recommendations and results of such study available as guideposts for action when conditions permit it.

APPENDIXES

There are included in this report as appendix A the study on Federal-State-Local Tax Coordination prepared by the tax advisory staff of the Treasury Department; tables prepared by the staff of the Joint Committee on Internal Revenue Taxation as appendix B; tables prepared by the representatives of State and local governments as appendix C; and a selected bibliography on Federal, State, and local tax relations as appendix D.

APPENDIX A

FEDERAL--STATE-LOCAL TAX COORDINATION

A STUDY
PREPARED FOR THE USE OF THE
SUBCOMMITTEE ON COORDINATION OF
FEDERAL, STATE, AND LOCAL TAXES, OF THE
COMMITTEE ON WAYS AND MEANS
BY THE
TAX ADVISORY STAFF OF THE SECRETARY
UNITED STATES TREASURY DEPARTMENT

MARCH 7, 1952

FOREWORD

March 7, 1952.

This study examines the development of Federal, State, and local tax relations. It presents information on the overlapping taxes now imposed at these governmental levels, and discusses the various kinds of coordination methods. The study brings up to date the discussion of the problems of coordination originally considered in the report of the special committee appointed by the Secretary of the Treasury in response to Senate Resolution 160 and published as Senate Document No. 69, Seventy-eighth Congress, first session. It is not intended to make policy recommendations but to provide factual and analytical materials to assist the Committee on Ways and Means in considering the issues involved in Federal, State, and local tax coordination.

Tax Advisory Staff of the Secretary,
United States Treasury Department.

CONTENTS

LIST OF TABLES

FEDERAL-STATE-LOCAL TAX COORDINATION

I. The Development of Intergovernmental Tax Problems

Under our Federal system of government, intergovernmental tax coordination is a continuing problem. Since the Constitution placed few restrictions on either Federal or State tax powers, it was to be expected that as revenue needs expanded both levels of government would have recourse to the same tax sources. This tax overlapping has focused attention on the need for tax coordination. Interest in the problem has varied in intensity with changes in the financial problems of State and local governments. It attracted a great deal of attention in the 1930's and the early 1940's, and is being actively considered again in the early 1950's.

Prior to World War I, revenue requirements were relatively moderate and Federal-State tax overlapping was largely avoided. Up to that time, a kind of separation of revenue sources existed. The Federal Government relied primarily on customs, which the States were forbidden to use under the Constitution, and on excises, particularly liquor and tobacco, which the States had not begun to use widely. The States, including their subdivisions, derived most of their revenue from the property tax. This source had been traditionally left to their exclusive use under the constitutional restrictions on Federal use of direct taxes.

As the present century progressed, the governments embarked on the development of new sources of revenue. Not until the 1930's, however, did the States and their subdivisions begin to consider themselves handicapped in finding additional revenues.

The pressing revenue problems of State and local governments in the 1930's were met partly through the development of new revenue sources, such as the general sales tax, and partly by direct Federal assistance through loans and grants for relief and work programs. Although the crisis was surmounted, the feeling persisted that some action should be taken with respect to "conflicting taxation." [1] In June 1941, the Secretary of the Treasury appointed a special committee to explore Federal-State tax coordination. A detailed account of the growth and extent of intergovernmental fiscal conflicts was prepared and an action program developed.[2] However, before the program could be developed further, the United States was at war.

The war relieved the pressure for action. High incomes and prices increased State and local tax yields, particularly from such sources as income and sales taxes. In the meantime, however, the Federal Government expanded its use of excise taxes and increased the level of

[1] See Conflicting Taxation, the 1935 Progress Report of the Interstate Commission on Conflicting Taxation, published jointly by the American Legislators' Association and the Council of State Governments.

[2] Federal, State, and Local Government Fiscal Relations (S. Doc. No. 69, 78th Cong., 1st sess.), 1943. This report was supplemented by two Treasury documents, Federal-State Tax Coordination, released in July 1947 and April 1949.

27006—53——2

income and profits taxes. In the postwar years, State and local revenues continued their upward trend, but expenditures also trended upward with the increased cost of regular programs and the need for expanded services. Especially pressing have been the needs for additional school, highway, and other facilities which were deferred during the war because of materials and manpower shortages. This coincided with a continuing high level of Federal revenues.

In recognition of the situation, the Secretary of the Treasury invited State and local representatives to meet with Federal officials in Washington in April 1949 to explore some intergovernmental fiscal problems, including methods of reducing tax conflicts and administrative duplication between States and the Federal Government. Consideration was given to proposals that the Federal Government relinquish certain excise tax sources to State and local governments either through reduction of rates or repeal of the Federal tax. The conference agreed that—

> while present Federal budgetary conditions preclude the revenue loss which would result if the Federal Government gave up these taxes * * * when conditions permit general Federal excise tax revision, the interest of the States and municipalities should be recognized.[3]

The effects of the post-Korean defense efforts on intergovernmental tax relations cannot yet be appraised. Materials shortages are not as restrictive on State and local activities as during World War II. At the same time, however, the increase of population, creation of new suburban areas, population shifts associated with defense activities, and other factors are creating a need for the extension of services.[4]

On the revenue side, developments have been swift but uneven. As a result of the expansion of general business activity, State and local revenues have risen sharply and in some States at a rate fast enough to permit record budgets to be balanced without the enactment of new tax measures. State revenues have increased rapidly, particularly from sales and income taxes which are sensitive to changes in business conditions. Local governments, however, relying heavily on the property tax, have not benefited proportionately from the high level of economic activity. While the total spending of State and local governments has increased at a slower rate from 1950 to 1951 than the growth in receipts, the general situation can be characterized as one of inadequate revenue.[5]

The continuing search for more revenue is steadily increasing the extent of tax overlapping. During 1951, State tax rates continued to increase as more than half of the 46 States holding legislative sessions increased the rates of at least 1 major tax. At least three States increased income tax rates. General sales taxes were adopted by three States and existing sales tax rates were increased in two others. Eight States increased gasoline tax rates; two enacted new cigarette taxes,[6] and four increased existing cigarette rates. Higher rates on some forms of alcoholic beverages were enacted by six States. Although rate reductions occurred in about seven States, in at least

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[3] Treasury Press Release S-1066A, April 22, 1949.
[4] Report of the Council of Economic Advisers to the President, January 1952.
[5] Cash expenditures of all State and local governments for the calendar year 1951 exceeded cash receipts by $400 million. The comparable combined State-local deficit for the calendar year 1950 was $900 million (Report of the Council of Economic Advisers to the President, January 1952).
[6] Oregon's new cigarette tax, however, will not go into effect until approved by popular referendum (November 1952).

four of these the reduction in one tax was accompanied by increases in others or by the adoption of new taxes.

Although local governments have developed a large number of nonproperty tax sources since World War II, the property tax is still their major reliance, producing almost 90 percent of their revenue. A few cities have been able to keep up with expenditures through the imposition of income taxes, general sales taxes, and selective excises, particularly on admissions, tobacco, and liquor, but others are searching for means to balance their budgets.

To some extent present local fiscal difficulties reflect a problem of adjustment in State and local fiscal relations. This is noticeably the situation in those States which had surpluses during the last fiscal year and were able to make temporary tax reductions while some of their own subdivisions were unable to cover necessary costs.

On the whole, however, State-local fiscal adjustments have been significant. By 1952, at least 20 States had relinquished the property tax to their local units or retained it only as a selective or incidental tax. Furthermore, there has been a noticeable trend on the part of States to relieve local budgets of certain expenses, to increase grants-in-aid and shared revenues, and to grant localities the authority to impose a wide variety of sales and other taxes. Some of these newly adopted or expanded State and local taxes duplicate those imposed by the Federal Government and focus attention on the problems of overlapping taxation.

The discussion which has accompanied the increasing overlapping in taxation has sought to identify revenue sources which the Federal Government might release for State and local use. Some State and local groups have been particularly interested in excises, holding that retention of wartime excise tax rates by the Federal Government interferes with their use by States and localities. Organizations such as the Governors' Conference (and its secretariat, the Council of State Governments), the American Municipal Association, and the United States Conference of Mayors have urged the Federal Government to reduce excises as soon as practicable, especially those on admissions, intrastate sales of electrical energy, local telephone calls, and gasoline. There is general recognition, however, that for the time being the high level of Federal expenditures for defense precludes a general reduction in Federal excise taxes. Although the Revenue Act of 1951 repealed the Federal tax on electrical energy, the prospect for continued heavy defense costs suggests that Federal-State-local tax coordination cannot await Federal tax reduction and withdrawal from tax fields desired by the States; that, rather, it must look to other coordination devices.

These developments suggest that an important phase of overlapping taxation is the basic problem of finding adequate revenues to meet the higher levels of governmental services. The mere overlapping use of tax sources of itself is not the central problem and is not necessarily undesirable. The subject is more concerned with the problems of resulting distribution of the tax burden, economy of administration and taxpayer compliance effort, and the adaptability of the structure to the varying needs of different governmental units.

Just as the problems of overlapping taxes are varied, so must their solutions be sought in a number of directions. No one coordination device will serve all purposes. American experience with tax coordination has developed different methods to deal with the different types of problems that have arisen. The problems are challenging and their solution often requires ingenuity and painstaking attention to detail. Continuous cooperative effort, however, has produced a structure of tax coordination which affords considerable scope for different governmental levels to achieve their objectives.

II. Tax Coordination Methods

Over the years a wide variety of tax-coordination techniques have been developed by experimentation under our Federal system of Government. There is hardly a coordination device ever thought of that has not been used by one governmental level or another. These devices are described in the present section and their use in the United States is discussed more fully with reference to specific types of taxes in the following sections.

SEPARATION OF SOURCES

Separation of revenue sources is the coordination device generally preferred by spokesmen for State and local governments who recognize at the same time that complete separation of sources is neither practicable nor desirable.

Source separation appeals to those who regard all tax overlapping as undesirable. It offers a possible solution also to those who hold that the untangling of our multiplicity of interdependent tax jurisdictions must await a fresh start in the reallocation of tax sources—and presumably in governmental functions—between the various governmental levels. There is, however, no general agreement as to the specific taxes which should be reassigned and where they should be assigned. The prescriptions are well nigh as numerous as the groups which have examined the subject.

Separation of source proposals accord with the proposition that insofar as possible each level of government should support its functions from its own independent revenues.[7] Stated another way, the unit that performs the service should levy the tax and collect the revenue to support that activity.

As a practical matter, the scope of revenue separation appears to be severely limited. Those taxes which might appear to be appropriate for earmarking for State and local governments would not yield enough to meet the revenue needs of these governments. Separation would involve revenue loss to the States since some presently make extensive use of taxes which, viewed in the light of administrative efficiency, should be administered at the national rather than the State or local level.

An essential element of the State and local tax problem is the uneven geographical distribution of tax bases, and this would be left untouched by reallocation of tax sources. Exclusive State jurisdiction over income, profits or wealth taxes, even if practicable, would not solve the problems of those States whose residents consist primarily of low-income recipients. On the other hand, some States would have a revenue-producing potential much beyond their needs, largely by

[7] The Coordination of Federal, State and Local Taxation, report of the Joint Committee of the American Bar Association and the National Tax Association and the National Association of Tax Administrators, p. 7.

accident of the geographic pattern of industrial concentration which has developed over the years.

A large-scale shifting of important revenue sources would be likely to result in serious dislocations and impair the most effective development of the over-all revenue system. There would be great difficulty, for example, in putting into effect the recommendations of one of the postwar studies which proposed that the Federal Government withdraw completely from death and gift taxation, motor-fuel taxation, liquor license taxes, and admissions taxes, while the States should give up tobacco taxation for the exclusive use of the Federal Government.[8]

Extensive separation of revenue sources would result in unequal geographic distribution of tax resources and revenue requirements. Present overlapping taxes are paralleled by overlapping expenditures. While some functions and activities may be more advantageously operated by a particular level of government than another, many activities seem to require joint policy making, financing, and administration. Highways, education, and welfare are examples of functions for which two or more levels of government appear to have financial and administrative responsibility.

The historic separation of governmental functions between the States and Federal Government has created grave problems in maintaining minimum standards of welfare among the residents of the various States in view of the wide variation in the financial ability of the different States and communities to support such services. This condition explains the system of Federal grants to State and local governments and State grants to local governments which have been developed to equalize differences in financial abilities. In fiscal year 1952 Federal grants were estimated at $2.7 billion or about 12 percent of total State and local revenues.[9] In fiscal year 1950 grants to the States alone amounted to more than $2 billion and represented 17 percent of their total general revenue.[10]

In a sense, the grant-in-aid device provides a middle course between direct Federal operation with complete Federal financing of a service at one extreme and complete State (or State-local) financing and operation at the other.

TAX SHARING

A common proposal for Federal-State tax coordination is that the Federal Government collect certain taxes and share a portion of the revenue with the States and their subdivisions.

Because of the States' problem of controlling interstate shipments of cigarettes, for example, it has been frequently proposed that the States withdraw from this field under an arrangement whereby the Federal Government would collect such taxes and share the revenues with them. Although a system of central collection and local sharing appears to be a simple coordination mechanism, the problem of developing methods for distributing tax revenues among the States presents major difficulties. The wide range in current State cigarette tax rates (from 1 cent to 8 cents) adds to the complexity of assuring the States replacement revenues to compensate for their withdrawal from this field.

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[8] Ibid., pp. 100-102.

[9] Budget of the United States for the fiscal year ending June 30, 1953, Special Analysis G, p. 1196.

[10] Bureau of the Census, Governmental Revenue in the United States, 1950.

Although tax sharing is widely used as a State-local coordination device in various tax fields, including cigarette taxes,[11] it has not been developed at the Federal level. Since local governments have only taxing powers granted to them by the States, the latter are able to take over certain fields of taxation at will without offering financial inducements to their local subdivisions. In the case of Federal-State relations, however, tax sharing is less practicable because any program for surrender of State taxing powers would have to be extremely liberal to attract the support of the States. Furthermore, if the local governments were involved, as they would be in the case of cigarette taxes, intrastate allocation of revenues from shared taxes would add to the complexity.

At the time of repeal of the eighteenth amendment, a number of proposals were made that the manufacture of alcoholic beverages be taxed exclusively by the Federal Government and the revenues shared with the States. These plans were rejected, however, and the Federal and State governments have developed their alcohol tax and control systems independently. Since the taxation of liquor is closely tied to regulation of liquor consumption which, under the twenty-first amendment and Federal legislation, has been left entirely to State determination, it is now generally agreed that the Federal Government and the States need to be left free to continue their separate paths in the taxation of alcoholic beverages.

DEDUCTIBILITY

A coordination device, the effectiveness of which is not generally recognized, is the practice of one jurisdiction permitting the deduction of taxes levied by other jurisdictions. This device is particularly important in the coordination of Federal and State income taxes.

The Federal Government allows the deduction of State individual and corporate income taxes in determining net income for Federal tax purposes, and some of the States permit similar deduction of Federal taxes. Deductibility minimizes duplication of tax rates, contributes greatly to uniformity of tax burdens as between taxpayers residing in different States, and reduces interstate competition.

Deductibility provides a degree of coordination in the excise tax field as well. In a number of cases where Federal selective excises and State and local general sales taxes apply to the same transaction, one tax is excluded from the base when computing the amount of the other. Some of these exclusions are written into the laws; others stem from administrative interpretation. In the case of some of the Federal ad valorem excises (particularly the Federal retailers' excises and the admissions taxes), State and local sales or excises may be excluded from the taxable base if stated as a separate charge.

Federal manufacturers' excises generally are not deductible in computing gross sales or gross receipts for State sales tax purposes, but a few States (and local governments) permit the deduction of these excises if separately stated in the sales price. This provision is of practical value since, in the case of a number of commodities subject to Federal manufacturers' excises, it is the practice to bill retail

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[11] The State of Wyoming, for example, in 1951 supplanted the 2-cent cigarette tax formerly levied by several cities by a State tax of the same rate, the revenues from which are returned to the cities (after deducting a small percentage for cost of collection). Uniformity in the local rates in this case made provision of replacement revenues relatively simple

purchasers separately for the tax. In most States, the Federal retailers' excises (on jewelry, furs, luggage, and toilet preparations) and the Federal excises on services (admissions, transportation, and communication) may be excluded from the taxable sales price if they are separately billed or invoiced.

TAX CREDITS

The tax credit is employed as a coordination device in connection with the estate tax and the payroll levies for unemployment compensation. Under this arrangement, taxpayers are allowed to claim taxes paid to States as a partial credit against Federal tax liability. This means in effect that within prescribed limits the taxpayer pays his Federal tax with State tax receipts. The limit in the case of the estate tax is 80 percent of the Federal liability under the 1926 law. One of the purposes of the estate tax credit was to preserve the State's revenue by preventing interstate competition for wealthy residents. Prior to its adoption, States were competing with each other for such residents by offering low rates or no death tax at all. Every State, except one, now has some form of death tax and most take full advantage of the Federal credit.

As a part of the social-security program, a Federal levy of 3 percent is imposed on the payrolls of employers of eight or more persons. A credit up to 90 percent is allowed against this tax, however, for contributions paid by employers under approved State unemployment-compensation plans. Provision is also made for Federal grants to the States for the administration of the insurance systems and employment services. Under this arrangement, State payroll taxes and unemployment-compensation systems have been universally adopted by the States. Because the employer contribution rates are based on a merit rating system, average contribution rates have been significantly below the 2.7 percent of covered payrolls allowed as credit against the Federal tax. However, the Federal law provides for the full 90-percent credit if the State funds meet certain requirements with respect to reserves.

The tax-credit device has been proposed for the coordination of Federal-State-local admissions taxes. While some proponents of the separation-of-sources policy urge complete Federal withdrawal from the admissions-tax field, others propose that the Federal Government continue to levy the admissions tax at present rates but give taxpayers credit for similar taxes paid to State and local governments. The credit could be limited to a certain percent of admissions or could be unlimited depending on relative Federal and State-local needs. While favoring ultimate repeal of the Federal admissions tax, the American Municipal Association has suggested use of the crediting device as an intermediate step.

The tax-credit method of coordination is also being used at the State-local level. Florida, in 1949, relinquished the cigarette tax to its local governments through this procedure. Municipalities were authorized to levy a tax not to exceed the State rate of 5 cents per package and a credit was provided against the State tax. Under this authority, 269 cities have levied a 5-cent tax which is collected by the State and returned to the cities.

A long-standing form of the crediting device is that used in the income tax field to eliminate hardships caused by overlapping parallel tax jurisdictions. It is frequent practice in State income taxation, for example, to allow a credit to residents for taxes paid to another jurisdiction on income derived from out-of-State sources.

UNIFORMITY OF TAX BASES AND METHODS OF TAX COMPUTATION

Another type of coordination, well developed in the income tax field, is adoption of similar tax bases and methods of tax computation. State definitions of net taxable income for both individual and corporate income tax often do not differ significantly from each other or from the Federal definition. There is a noticeable trend in recent years toward the adoption by the States of the Federal definition of "net income" (with certain necessary adjustments) as well as use of the Federal per capita exemption, standard deduction, and simplified tax table. More than two-thirds of the States with individual net income taxes now allow either a standard deduction or the use of a simplified tax table or both.

TAX SUPPLEMENTS

A high degree of coordination is obtained by the use of an identical tax base by both the Federal Government and the States, with the State tax being levied in terms of a percentage of the Federal tax. This is known as a tax supplement. Utah in 1951 adopted an individual income tax provision which permits taxpayers who use the Federal simplified tax table to pay 10 percent of the Federal tax in lieu of the amount determined under State rates. Since this provision has been adopted so recently, however, no appraisal of its usefulness can now be made. In Alaska the Territorial tax is 10 percent of the Federal tax for all taxpayers.

The tax supplement device, as employed in other countries, has generally involved collection of both national and local taxes by one level of government, national in some cases, local in others. Although there is no provision for unified administration in connection with the supplements imposed by Utah and Alaska, the use of an identical tax base has much to offer in the way of simplicity of administration and compliance.

The States have made notable progress recently in the integration of overlapping State-local taxes through the use of tax supplements and unified administration. Mississippi, for example, initiated its local sales taxes in 1950 with a complete scheme of integration. The State authorized cities to levy a tax equal to one-fourth of the State sales tax. The local taxes are collected along with the State tax on a single return. This procedure is in striking contrast to the situation in California where sales taxes of more than 140 cities are administered independently of the State sales tax. However, consideration is being given in California to several alternative methods of integrating the State and local sales taxes, including the tax supplement, tax sharing, and tax credit.[12] Louisiana has authorized State collection of New Orleans' sales tax and certain other local taxes, without

[12] California State Board of Equalization, What's Next in Local Sales Taxes? A Second Supplement to City Sales Taxes in California, January 1951.

cost to the city, but to date no such arrangement appears to have been worked out.

ADMINISTRATIVE COOPERATION

Administrative cooperation is a type of coordination well adapted to the American system of sharing responsibilities by different levels of government.

A highly developed form of Federal-State administrative cooperation would be either delegated or joint administration. The former involves contractual arrangements under which duplicate administration is eliminated and one level of government collects taxes for the other. Both Canada and Australia experimented with delegated administration of the income tax before World War II but the experiment was suspended during the war when both national governments took over the exclusive use of the income tax. Under joint administration both levels of government continue to administer their own taxes, but in a combined operation through exchange of personnel and other facilities.

Although neither delegated nor joint administration has been worked out in this country, considerable progress has been made in administrative cooperation with benefits of economy in enforcement and compliance. Progress has been most notable in the income-tax field, where it has been facilitated by standardization of tax bases and methods of tax computation. Such developments as exchange of information and exchange of audits hold promise of further progress.

For many years State tax officials have had access to Federal income tax returns in connection with the administration of their tax laws. They may inspect returns both in Washington and in collectors' offices, send their own representatives to microfilm or make hand transcriptions of returns, or obtain photostatic copies of returns at small cost.

Since the beginning of 1950, audit information has been exchanged between Federal and State authorities in several States. This enables State authorities to collect additional taxes on the basis of Federal audits without further field audits. The exchange of audit results gives better audit coverage at both Federal and State levels, results in substantial increases in collections at minimum cost, and at the same time tends to spare the taxpayer separate visits from several examining officers. The strides made in connection with the audit-exchange program indicate the range of possibilities of coordination through administrative cooperation.

Another kind of Federal-State administrative cooperation currently receiving attention is Federal withholding of State income taxes from salaries of Federal employees in those States which have wage withholding provisions. For a number of years the Federal Government has been furnishing State and local income tax administrators copies of the Federal withholding receipts (Form W-2) which indicate the amount of compensation received by Federal employees located within their jurisdiction. The Treasury Department has given its approval to legislation authorizing Federal agencies to withhold State income taxes from Federal salaries in those States which have withholding provisions.

In other tax areas Federal-State administrative cooperation has not been developed to as great an extent as in the income tax field but is nonetheless significant. Employers' returns under the Federal Unemployment Tax Act are available for inspection by State officials on much the same basis as income tax returns. State officials are also authorized to inspect Federal estate, gift, and excise tax returns. Although administrative cooperation presents special problems in the excise field because the tax base and the time and method of tax payments vary widely among taxing units, its potentialities have not been explored adequately.

The cigarette tax is a notable example of an excise for which the States have sought Federal enforcement assistance. The administration of tobacco taxes at the State level has been extremely difficult because interstate parcel-post shipments facilitate tax evasion. Although the States have assisted each other through exchange of information on such shipments, they have not been successful in preventing tax evasion. The problem of Federal-State coordination is difficult because it involves different taxpayer groups. Federal legislation enacted in 1949 (the Jenkins Act) provides that persons selling cigarettes in interstate commerce and shipping them to other than a licensed distributor in a State taxing the sale or use of cigarettes are required to forward to the tobacco tax administrator of the buyer's State monthly information regarding such shipments. More recently attention is being given to the proposal that State cigarette taxes be collected at the manufacturers' level at the same time that the Federal stamp is affixed.

Although on an informal basis, substantial Federal-State cooperation has been achieved in the administration of alcoholic-beverage taxes and control measures. Federal, State, and local enforcement officers cooperate closely in many areas in the detection and prosecution of illicit production. Federal enforcement is strengthened greatly by State and local assistance, and information available from Federal sources is helpful to the States in collecting the tax on interstate shipments and in preventing shipments to "dry" areas. Federal records showing shipments of distilled spirits are furnished to the States on request. In addition, States can obtain copies of information submitted in connection with Federal occupational taxes on wholesale and retail dealers in alcoholic beverages.

Such cooperation reduces the total cost of regulating the alcoholic-beverage business and of administering the taxes imposed upon it. Tentative proposals have been made by State representatives that a more centralized collection system be adopted for State liquor excises so that producers could pay the State tax at the same time that they paid the Federal tax. This is similar to the proposal mentioned above for collection of State cigarette taxes at the manufacturers' level. Its usefulness would be limited so long as State tax rates vary widely, since persons in high State-rate areas desiring to avoid these taxes could obtain their supplies in nearby low-tax rate States.

* * * * * * *

This examination of recent developments indicates that a variety of Federal-State-local tax coordination devices are now being used and considerable progress is being made both in Federal-State and State-local tax relations. Much of this has been accomplished without legislative action or public attention and through informal conferences and agreements between Federal, State, and local officials. It suggests that more could be accomplished by a concerted effort to make fuller use of coordination devices proved to be effective.

American experience makes it clear that tax coordination does not necessitate periodic upheavals. Intergovernmental tax relations inevitably have to be revised to accord with changing conditions but this can best be handled through a gradual process of adjustment. Among those concerned with the problem there is a growing realization that it is one of evolving institutional arrangements which can be shaped and reshaped to meet changing conditions. The record of intergovernmental tax relations during the past 30 years is the record of just that process, and realism suggests that this process must continue. In this way, the Federal system of government makes full use of its flexibility in adapting itself to changing conditions.

III. Income Taxes

It is appropriate to begin the examination of overlapping taxation in the United States with the income tax, a field in which Federal-State coordination has progressed rapidly in recent years.

A. INDIVIDUAL INCOME TAXES

The modern individual income tax began approximately the same time at both the Federal and State levels, but most of the States waited a decade or more after the adoption of the Federal tax before entering this field. Today 29 States and the District of Columbia impose individual net income taxes; in addition, 2 States impose taxes on income from intangibles only, and 2 tax such income under their property taxes. Some of the most populous and industrialized States (including Illinois, Indiana, Michigan, Ohio, Pennsylvania, and New Jersey) have no individual income taxes.

Local income taxes are levied in four States, but these taxes are imposed at low flat rates and differ in basic characteristics from the Federal and State taxes.

The widespread use of the individual income tax by the Federal Government and the States has focused attention on the need for intergovernmental coordination.

In recent years, the income tax has become the most important single source of Federal revenue. During fiscal year 1951, Federal individual income tax collections amounted to $20.9 billion and accounted for 46.5 percent of total tax revenues (excluding contributions for social insurance). (Table 1.) During the same period, State individual income taxes amounted to $810 million and accounted for 9.1 percent of State tax revenues (excluding payroll levies for unemployment compensation).

Data on local income tax collections are incomplete. Ten of the larger cities using this source of revenue received approximately $60 million from income taxes in 1950.

TABLE 1.—*Federal, State, and local tax revenue, by sources, for fiscal year 1951* [1]

Tax	Amount (millions)			Percent of total		
	Federal [2]	State	Local [3]	Federal	State	Local
Net income:						
Individual	[4] $20,940	[5] $810	$64	46.5	9.1	0.8
Corporate	14,101	682	7	31.3	7.6	.1
Death and gift	708	196	4	1.6	2.2	.1
Alcoholic beverages	[6] 2,508	[6] 546	(7)	5.6	6.1	(7)
Tobacco	1,378	430	(7)	3.1	4.8	(7)
Gasoline	569	[8] 1,710	(7)	1.3	19.1	(7)
Amusements	[9] 444	[10] 18	(7)	1.0	.2	(7)
General sales		2,001	[11] 484		22.4	6.1
Property		346	7,056		3.9	88.2
Stock transfer	29	(12)		.1	(12)	
Other	4,338	2,193	383	9.6	24.6	4.8
Total	45,016	8,932	7,998	100.0	100.0	100.0

1 Exclusive of social insurance contributions.
2 Internal revenue collections minus refunds, net of interest allowed on refunds. Federal figures are on a collection basis, except customs which are on a daily Treasury statement basis.
3 Local tax revenue for fiscal year 1950. Includes collections for Washington, D. C.
4 Beginning Jan. 1, 1951, amounts withheld for Federal income tax and old-age insurance are not reported separately. Withheld individual income tax collections are estimated by deducting appropriations to Federal old-age insurance trust fund from total withheld taxes.
5 Combined corporation and individual income taxes as reported by four States are included in individual inome taxes.
6 Includes both excises and licenses.
7 Included in general sales tax collections.
8 Includes taxes on gasoline and other motor fuels.
9 Includes taxes on admissions to theaters, concerts, cabarets, etc., club dues and initiation fees; bowling alleys, pool tables, and coin-operated devices.
10 Includes both excises and licenses but does not include amounts collected from admissions by the 17 States which tax admissions under the general sales tax.
11 Includes both general and specific sales taxes.
12 Complete data are not available. New York State collections for the fiscal year ending Mar. 31, 1951, amounted to $31.2 million.

NOTE.—Figures are rounded and do not necessarily add to totals.

Sources: Federal taxes (except customs): Bureau of Internal Revenue, Summary of Internal Revenue Collections, Aug. 27, 1951, as adjusted for refunds. Customs: Daily Treasury statement, June 29, 1951. State taxes: Bureau of Census. State Tax Collections in 1951. Local taxes: Bureau of Census. Governmental Revenue in 1950.

1. *Federal tax*

The individual income tax has become the backbone of the Federal revenue system. In fiscal year 1939, this tax yielded about one-fifth of total revenue, as compared with 46.5 percent in fiscal year 1951. The number of returns filed increased from less than 8 million to more than 50 million in the same period. This growth is attributable to the increase in personal incomes, higher rates, and lower exemptions. From a restricted tax affecting only middle- and upper-income recipients, the income tax has been transformed into a levy falling on the majority of families.

The personal income tax, enacted upon ratification of the sixteenth amendment in 1913, consisted of a 1-percent normal tax from which corporation dividends were exempt and a surtax at rates ranging from 1 to 6 percent. In addition to many structural changes since 1913, the individual income tax has undergone numerous changes in rates and exemptions. World War I brought large rate increases and a sharp decline in exemptions. Between 1919 and 1928 there were seven reductions in personal income taxes. This trend was reversed during the 1930's. Exemptions were lowered in 1932 and rates were raised in 1932, 1934, and 1935.

Defense and war financing during World War II resulted in a series of sharp increases, reaching a peak in 1944. The wartime taxes were reduced first in 1945 and again in 1948. However, as a result of increased defense requirements following the beginning of hostilities in Korea, rates were increased by the 1950 and 1951 revenue acts.

At the present time, personal exemptions are $600 per capita [13] and rates range from 22.2 percent on the first $2,000 of taxable income to 92 percent on the amount of taxable income in excess of $200,000. The total tax for an individual is limited to 88 percent of net income. At calendar year 1951 levels, total individual income tax liabilities under present rates are estimated to amount to $26.4 billion.

2. State taxes

Individual income taxes imposed by the States show considerable structural resemblance to the Federal tax but differ from it and from each other in the levels of rates and exemptions. Like the Federal tax, all State individual income taxes grant personal exemptions (table 2). The exemption is generally stated as a deduction from income but 5 States express the exemption in the form of a tax credit.

[13] An additional exemption of $600 is allowed for the blind and for those over 65 years of age.

TABLE 2.—*State individual income taxes: Personal exemptions and credits for dependents Jan. 1, 1952*

State	Personal exemptions				Credit for dependents	
	Single		Married couple or head of family			
Alabama	$1,500		$3,000.00		$300.00	
Arizona	[1] 10	($1,000)	[1] 20.00	($2,000)	[2] 4.00	($320)
Arkansas	2,500		3,500.00		600.00	
California [3]	2,000		3,500.00		400.00	
Colorado [4]	600		1,200.00		600.00	
Delaware	1,000		2,000.00		200.00	
Georgia	1,000		2,500.00		400.00	
Idaho	700		1,500.00		200.00	
Iowa [5]	[1] 15	(1,250)	[1] 30.00	(2,000)	[2] 7.50	(250)
Kansas	600		1,200.00		600.00	
Kentucky	[1] 20	(1,000)	[1] 40.00	(2,000)	[2] 10.00	(500)
Louisiana [6]	1,000	(20)	2,500.00	(50)	400.00	(8)
Maryland [7]	1,000		2,000.00		600.00	
Massachusetts [8]	2,000		2,500.00		400.00	
Minnesota [9]	[1] 10	(1,000)	[1] 30.00	(2,000)	[2] 10.00	(333)
Mississippi	1,000		2,500.00		400.00	
Missouri	1,200		2,400.00		400.00	
Montana	1,000		2,000.00		300.00	
New Hampshire [10]	600		600.00		--------	
New Mexico	1,500		2,500.00		200.00	
New York	1,000		2,500.00		400.00	
North Carolina [11]	1,000		[11] 2,000.00		300.00	
North Dakota	500		1,500.00		500.00	
Oklahoma	1,000		2,000.00		500.00	
Oregon	750		1,500.00		300.00	
South Carolina	1,000		2,000.00		400.00	
Tennessee [10]	--------		----------		--------	
Utah	600		1,200.00		300.00	
Vermont [12]	500		1,000.00		500.00	
Virginia [4]	1,000		2,000.00		200.00	
Wisconsin [13]	[1] 8	(800)	[1] 17.50	(1,600)	[2] 4.00	(320)
District of Columbia	4,000		[14] 4,500.00		500.00	

[1] Tax credits are deductible from the amount of tax rather than from net income. The sum in parenthesis expresses tax credit as income exemption on the assumption that the exemption is always deducted from the lowest income bracket.

[2] Tax credits are deductible from the amount of tax rather than from net income. The sum in parenthesis is the amount by which the first dependent raises the level at which a married person or head of family will first become taxable.

[3] An additional exemption of $500 is allowed a taxpayer, if blind, and his spouse, if blind, when separate returns are filed.

[4] An additional exemption of $600 is allowed each taxpayer and his spouse, if 65 years of age or over, plus $600 for taxpayer and for spouse, if blind, when separate returns are filed.

[5] Tax credits shown are applicable for the years 1947–52. Permanent credits are $10 for single persons, $20 for married couples, and $5 for dependents. In the case of a dependent father, mother, or grandparent, the taxpayer may take a deduction of $450 in lieu of the $7.50 tax credit.

[6] The exemptions and credits for dependents are deductible from the lowest income bracket and are equivalent to the tax credits shown in parenthesis.

[7] An additional exemption of $1,000 is allowed each taxpayer and his spouse if 65 years of age or over, plus $1,000 for taxpayer and for spouse, if blind. An additional credit of $600 is allowed for each dependent 65 years of age or over.

[8] The exemptions shown consist of a specific exemption of $2,000 on earned income, in addition to a personal exemption on earned income of $500 for husband or wife and a credit for each dependent of $400. A person whose total income from all sources does not exceed $1,000 and whose income together with his spouse's does not exceed $1,500 may have an exemption of $1,000 on his property income.

[9] An additional tax credit ($10 for single persons and $15 each for taxpayer and spouse) is allowed for persons 65 years of age or over and for blind persons.

[10] Tax applies only to interest and dividends.

[11] Additional exemptions are allowed: $1,000 for a married woman with separate income, and $1,000 for a wholly blind person.

[12] An additional $500 exemption is allowed taxpayers over 65 years of age or blind.

[13] For purposes of the surtax, an additional tax credit of $37.50 is allowed.

[14] If a joint return is filed, a spouse is considered a dependent. If separate returns are filed, the combined exemption is $8,000.

Under State income taxes, exemptions for a single person, a married couple, or head of family are generally higher than the corresponding exemptions allowed under the Federal $600-per-capita system. However, in all but four States the credit for a dependent is lower than the $600 Federal exemption.

The size distribution of personal exemptions and credits for dependents allowed by the States and the District of Columbia as of January 1, 1952, is as follows:

Single person		Married couple or head of family		Dependents	
Amount of exemption	Number of States	Amount of exemption	Number of States	Amount of exemption	Number of States
$500	2	$1,000	1	$200	4
$600	3	$1,200	3	$250	2
$700	1	$1,500	3	$300	5
$750	1	$1,600	1	$320	2
$800	1	$2,000	11	$333	1
$1,000	14	$2,400	1	$400	7
$1,200	1	$2,500	6	$500	5
$1,250	1	$3,000	1	$600	4
$1,500	2	$3,500	2		
$2,000	2	$4,500	1		
$2,500	1				
$4,000	1				

NOTE.—For the 5 States which express the exemption in the form of a tax credit, the credits have been converted into their deduction equivalents.

With few exceptions, State income tax rates are graduated but none approaches the highest rates of the Federal schedule. The highest State rate is 15 percent; in 25 States the rates are no higher than 7 percent, and 8 States have maximum rates of less than 5 percent. Approximately two-thirds of the States terminate graduation at $10,000 of taxable income or below; graduation reaches beyond the $25,000 level in only 3 States (table 3).

TABLE 3.—*State individual income taxes: Rates January 1, 1952*

State	Net income after personal exemption	Rate	Special rates or features
		Percent	
Alabama	First $1,000	1.5	A standard deduction is allowed.
	$1,001 to $3,000	3	
	$3,001 to $5,000	4.5	
	Over $5,000	5	
Arizona	First $2,000	1	
	$2,001 to $3,000	1.25	
	$3,001 to $4,000	1.5	
	$4,001 to $5,000	2	
	$5,001 to $6,000	2.5	
	$6,001 to $7,000	3	
	$7,001 to $8,000	3.5	
	$8,001 to $9,000	4	
	Over $9,000	4.5	
Arkansas	First $3,000	1	A standard deduction is allowed.
	$3,001 to $6,000	2	
	$6,001 to $11,000	3	
	$11,001 to $25,000	4	
	Over $25,000	5	
California	First $5,000	1	A standard deduction and a simplified tax table are provided.
	$5,001 to $10,000	2	
	$10,001 to $15,000	3	
	$15,001 to $20,000	4	
	$20,001 to $25,000	5	
	Over $25,000	6	
Colorado	First $1,000	1	A standard deduction and a simplified tax table are provided.
	$1,001 to $2,000	1.5	Gross income in excess of $600 derived from dividends, royalties, and interest is subject to a 2 percent surtax.
	$2,001 to $3,000	2	
	$3,001 to $4,000	2.5	For taxable years 1950 and 1951, the tax is reduced 20 percent.
	$4,001 to $5,000	3	
	$5,001 to $6,000	4	
	$6,001 to $7,000	5	
	$7,001 to $8,000	6	
	$8,001 to $9,000	7	
	$9,001 to $10,000	8	
	$10,001 to $11,000	9	
	Over $11,000	10	

TABLE 3.—*State individual income taxes: Rates January 1, 1952*—Continued

State	Net income after personal exemption	Rate	Special rates or features
		Percent	
Delaware	First $3,000	1	
	$3,001 to $10,000	2	
	Over $10,000	3	
Georgia	First $1,000	1	
	$1,001 to $3,000	2	
	$3,001 to $5,000	3	
	$5,001 to $7,000	4	
	$7,001 to $10,000	5	
	$10,001 to $20,000	6	
	Over $20,000	7	
Idaho	First $1,000	1.5	A standard deduction is allowed.
	$1,001 to $2,000	3	
	$2,001 to $3,000	4	
	$3,001 to $4,000	5	
	$4,001 to $5,000	6	
	Over $5,000	8	
Iowa	First $1,000	1	A simplified tax table is provided.
	$1,001 to $2,000	2	For taxable years 1947–52, the tax is reduced 25 percent.
	$2,001 to $3,000	3	
	$3,001 to $4,000	4	
	Over $4,000	5	
Kansas	First $2,000	1	A standard deduction is allowed.
	$2,001 to $3,000	2	
	$3,001 to $5,000	2.5	
	$5,001 to $7,000	3	
	Over $7,000	4	
Kentucky	First $3,000	2	A standard deduction and a simplified tax table are provided.
	$3,001 to $4,000	3	
	$4,001 to $5,000	4	For taxable years 1950 and 1951, the rate on income in excess of $8,000 is 6 percent.
	Over $5,000	5	
Louisiana	First $10,000	2	A standard deduction is allowed.
	$10,001 to $50,000	4	
	Over $50,000	6	
Maryland	Ordinary income	2	A standard deduction and a simplified tax table are provided. For taxable year 1951, the tax is reduced 15 percent.
	Investment income:		
	First $500	2	
	Balance	5	
Massachusetts	Earned income and business income.	3.075	Rates include additional taxes; on all types of income, a permanent surtax of 3 percent of tax and a temporary surtax of 20 percent of tax for the years 1950–53; for 1951 and 1952, 1 percent of earned and business income, and 3 percent of net capital gains from intangibles.
	Interest and dividends, capital gains on intangibles.	7.38	
	Annuities	1.845	
Minnesota	First $1,000	1	A standard deduction and a simplified tax table are provided.
	$1,001 to $2,000	2	
	$2,001 to $3,000	3	For taxable years 1949–58, an additional tax equal to 5 percent of the tax before personal credit is imposed.
	$3,001 to $4,000	4	
	$4,001 to $5,000	5	
	$5,001 to $7,000	6	A $5 annual tax is imposed on each person required to file a return.
	$7,001 to $9,000	7	
	$9,001 to $12,500	8	
	$12,501 to $20,000	9	
	Over $20,000	10	
Mississippi	$First $4,000	1	A standard deduction is allowed.
	$4,001 to $7,000	2	
	$7,001 to $10,000	3	
	$10,001 to $15,000	4	
	$15,001 to $25,000	5	
	Over $25,000	6	
Missouri	First $1,000	1	A standard deduction and a simplified tax table are provided.
	$1,001 to $2,000	1.5	The rates apply to total income, not merely to the portion of income falling within a given bracket, but as a result of the following tax credits, the schedule in effect is a bracket rate schedule:
	$2,001 to $3,000	2	
	$3,001 to $5,000	2.5	
	$5,001 to $7,000	3	
	$7,001 to $9,000	3.5	
	Over $9,000	4	$1,001 to $2,000 — $5
			$2,001 to $3,000 — 15
			$3,001 to $5,000 — 30
			$5,001 to $7,000 — 55
			$7,001 to $9,000 — 90
			Over $9,000 — 135
Montana	First $2,000	1	
	$2,001 to $4,000	2	
	$4,001 to $6,000	3	
	Over $6,000	4	
New Hampshire	Income from intangibles excluding savings deposits.	(1)	The rate for 1950 was 4.31 percent.

[1] Average property tax rate.

TABLE 3.—*State individual income taxes: Rates January 1, 1952*—Continued

State	Net income after personal exemption	Rate	Special rates or features
		Percent	
New Mexico	First $10,000	1	
	$10,001 to $20,000	2	
	$20,001 to $100,000	3	
	Over $100,000	4	
New York	First $1,000	2	A standard deduction is allowed.
	$1,001 to $3,000	3	For taxable years 1948–51, the tax is reduced 10 percent.
	$3,001 to $5,000	4	
	$5,001 to $7,000	5	Capital gains are taxed at ½ the regular rates.
	$7,001 to $9,000	6	
	Over $9,000	7	Income from incorporated business is taxed at 3 percent through 1951 and at 4 percent thereafter.
North Carolina	First $2,000	3	
	$2,001 to $4,000	4	
	$4001 to $6,000	5	
	$6,001 to $10,000	6	
	Over $10,000	7	
North Dakota	First $2,000	1	
	$2,001 to $4,000	2	
	$4,001 to $5,000	3	
	$5,001 to $6,000	5	
	$6,001 to $8,000	7.5	
	$8,001 to $10,000	10	
	$10,001 to $15,000	12.5	
	Over $15,000	15	
Oklahoma	First $1,500	1	A standard deduction and a simplified tax table are provided.
	$1,501 to $3,000	2	
	$3,001 to $4,500	3	
	$4,501 to $6,000	4	
	$6,001 to $7,500	5	
	Over $7,500	6	
Oregon	First $500	2	Do.
	$501 to $1,000	3	
	$1,001 to $2,000	4	
	$2,001 to $3,000	5	
	$3,001 to $4,000	6	
	$4,001 to $8,000	7	
	Over $8,000	8	
South Carolina	First $2,000	2	A standard deduction is allowed.
	$2,001 to $4,000	3	
	$4,001 to $6,000	4	
	Over $6,000	5	
Tennessee	Interest and dividends	6	The rate applicable to dividends from corporations having at least 75 percent of their property subject to the Tennessee ad valorem tax is 4 percent.
Utah	First $1,000	1	For taxable years beginning after Dec. 31, 1951, a taxpayer whose income is less than $5,000 may pay 10 percent of his Federal income tax as determined from the Federal tax table, instead of an amount computed under the State rates shown.
	$1,001 to $2,000	2	
	$2,001 to $3,000	3	
	$3,001 to $4,000	4	
	Over $4,000	5	
Vermont	First $1,000	1.5	A standard deduction and a simplified tax table are provided.
	$1,001 to $3,000	3	
	$3,001 to $5,000	4.5	A surtax equal to 15 percent of the tax is imposed for the years 1951 and 1952.
	Over $5,000	5.5	
Virginia	First $3,000	2	A standard deduction is allowed.
	$3,001 to $5,000	3	Reductions in tax depending upon State revenue yield are allowed.
	Over $5,000	5	For taxable year 1950, the reduction was 20 percent.
Wisconsin	First $1,000	1	A standard deduction and a simplified tax table are provided.
	$1,001 to $2,000	1.25	A surtax equal to normal tax less $37.50 divided by 6 is imposed.
	$2,001 to $3,000	1.5	
	$3,001 to $4,000	2	
	$4,001 to $5,000	2.5	
	$5,001 to $6,000	3	
	$6,001 to $7,000	3.5	
	$7,001 to $8,000	4	
	$8,001 to $9,000	4.5	
	$9,001 to $10,000	5	
	$10,001 to $11,000	5.5	
	$11,001 to $12,000	6	
	Over $12,000	7	
District of Columbia	First $5,000	1.5	A standard deduction is allowed.
	$5,001 to $10,000	2	Income from unincorporated business is taxed at 5 percent.
	$10,001 to $15,000	2.5	
	Over $15,000	3	

3. Local taxes

Individual income taxation at the local level is a relatively recent development. As already noted, such taxes are imposed in only four States and are widely used in only one State, Pennsylvania. Philadelphia was the first city to adopt an income tax (in 1940). Pennsylvania's blanket authorization in 1947 to local governments to use the sources of revenue not employed by the State (with certain exceptions) enabled even the smallest taxing jurisdictions to levy individual income taxes. At present, more than 200 units in Pennsylvania (including such large cities as Scranton and Johnstown, as well as smaller cities, boroughs, and school districts) impose income taxes.[14] Five large cities in Ohio (Columbus, Dayton, Springfield, Toledo, and Youngstown) also impose income taxes. The most recent income tax enactments are those of Louisville and Paducah, Ky., and Saginaw, Mich.[15] St. Louis formerly had an income tax but its authority to impose such a levy expired in 1950 and has not been renewed.

In only one State (Kentucky) do local income taxes overlap State income taxes. Ohio and Pennsylvania prohibit local governments from entering tax fields already occupied by the State. Local income taxes in Pennsylvania apply only to salaries and wages and net profits of unincorporated businesses and professions. Some cities specifically include in the tax base income from rental property and net capital gains (computed in full without taking into consideration the length of time the property is held). None of the city taxes applies to investment income.

All of the local individual income taxes are imposed at low, flat rates (ranging from 0.3 percent in Youngstown, Ohio, to 1¼ percent in Philadelphia) and are withheld at the source by the employer.

Table 4 shows the rates imposed and the tax base in selected cities. With one exception, personal exemptions and deductions for personal expenses, such as interest and contributions, are not allowed. Springfield, Ohio, waives the tax on incomes of less than $1,040, but if the income exceeds this amount the total income is subject to tax. The usual deductions are allowed against business income. Although the income tax is not widely used by cities, it is an important source of revenue in all cities which employ it. In 1950, Philadelphia collected $37.5 million or almost one-third of the city's total general revenue from this source. In the same year, other Pennsylvania cities and some Ohio cities derived even larger proportions of their revenue from the income tax.

[14] In 1949, Pennsylvania placed important restrictions and limitations on the authority granted its local subdivisions. As a result of this amendment, income tax rates may not exceed 1 percent, and school districts (other than first class) are prohibited from levying taxes on earned income of nonresidents.

[15] The effective date of Saginaw's tax (originally Jan. 1, 1952) has been postponed to July 1, 1952, pending court decision as to its validity.

TABLE 4.—*Municipal income taxes, Jan. 1, 1952*

State and city	Date of adoption	Rate	Individuals			Unincorporated business		Corporations
			Residents		Nonresidents	Residents	Nonresidents	Net profits from activities conducted within city by corporations having an office or place of business within city
			Salaries, wages, and other compensation wherever earned	Income earned within city	Income earned within city	Net profits from activities wherever conducted	Net profits from activities conducted within city	
Ohio:		Percent						
Columbus	[1] 1947	0.5	X	----------	X	X	X	X
Dayton	[2] 1950	.5	[3] X	----------	X	[3] X	X	[4] X
Springfield [5]	[6] 1948	1	[3] X	----------	X	[3] X	X	X
Toledo	[7] 1946	1	[3] X	----------	X	[3] X	X	X
Youngstown	[8] 1948	.3	[9] X	----------	X	[9] X	X	X
Pennsylvania:								
Altoona	1948	[10] .7	X	----------	X	X	X	----------
Erie	1948	1	X	----------	X	X	X	----------
Johnstown	1948	1	X	----------	X	X	X	----------
New Castle	1948	.5	X	----------	X	X	X	----------
Philadelphia	1939	1.25	X	----------	X	X	X	----------
Scranton	1948	.5	X	----------	X	X	X	----------
200 other local taxing districts (approximately)	([11])	[12] [13] .4–1	([14])	----------	([14])	([14])	([14])	----------
Kentucky:								
Louisville	1948	1	----------	[15] X	[15] X	[15] [16] X	[15] X	[4] X
Paducah	1950	.5	----------	[15] X	[15] X	----------	----------	----------
Michigan: Saginaw	[17] 1951	1	X	----------	X	X	X	X

[1] Expires Dec. 31, 1952.
[2] Expires Dec. 31, 1951.
[3] A credit is allowed for income taxes paid to other cities. Toledo limits the credit to 50 percent of tax liability and requires reciprocity.
[4] The tax applies to all corporations, whether or not the office or place of business is located within the city.
[5] The first $1,040 of income is excluded, but if income exceeds this amount the total income is subject to the tax.
[6] Expires June 30, 1953.
[7] Expires Dec. 31, 1955.
[8] Expires Dec. 31, 1953.
[9] The tax does not apply to income on which tax has been paid to another city.
[10] Applicable to the year 1951. The permanent rate is 1 percent.
[11] Adopted under the State General Enabling Act of 1947.
[12] Range.
[13] The State Enabling Act limits the maximum rate to 1 percent.
[14] The tax base is generally similar to that shown for the larger Pennsylvania cities.
[15] Specifically exempt from tax are domestic servants employed in private homes and certain businesses subject to the occupational license tax based on gross income.
[16] The tax applies only to income earned from activities conducted within the city.
[17] The effective date of the tax (originally Jan. 1, 1952) has been postponed to July 1, 1952, pending court decision as to its validity.

4. Coordination developments

The foregoing catalog of variations in Federal, State, and local income taxes tends to exaggerate the differences. In recent years, an increasing number of States have patterned their methods of tax computation after the methods used by the Federal Government subsequent to the adoption of a tax simplification program in 1944. Moreover, a number of techniques have been developed which achieve a substantial amount of uniformity and coordination in income tax administration and enforcement. Although a great deal remains to be done, postwar progress has been appreciable.

a. Deductibility.—The imposition of income taxes by both Federal and State governments does not prevent the States from increasing their revenues from this source or from imposing income taxes if they do not already levy such taxes. The technique of allowing deductions of State income tax payments from income subject to Federal income tax contributes greatly to uniformity of tax burdens, permits States to increase their revenues at less than dollar-for-dollar cost to the taxpayer, and reduces interstate competition.

Table 5 illustrates the effect of the deductibility feature on the combined Federal-State tax burden of a married man with two dependents, at selected levels of net income tax (before deduction of State and Federal taxes). At the $200,000 net income level, for example, the effective rate of the Federal tax alone (assuming no State tax) is 69.2 percent. In the case of a person subject to the tax of 6.1 percent in New York State, which does not allow the Federal tax as a deduction, the combined Federal and State tax amounts to 69.9 percent. Thus, whereas New York State receives its 6.1 percent share, the Federal tax is in effect reduced from 69.2 to 63.8 percent as a result of deductibility of the State tax at the Federal level. Due to the effect of graduated rates, deductibility reduces the combined Federal and State tax burdens proportionately more in the middle and higher income brackets than in the lowest brackets.

TABLE 5.—*Effect of deductibility* [1] *on combined Federal and State individual income tax* [2] *for a married man with 2 dependents, at selected net income levels*

[Percent]

Net income before personal exemption [3]	Effective rate of tax				
	Federal (assuming no State tax)	State		Combined Federal and State	
		New York	Minnesota (assuming no Federal tax)	New York	Minnesota [4]
$20,000	25.0	4.1	6.9	27.6	27.9
$50,000	42.2	5.4	9.1	44.0	43.9
$100,000	56.0	5.9	9.8	57.5	57.1
$200,000	69.2	6.1	10.1	69.9	69.5
$1,500,000	[5] 88.0	6.3	10.5	89.3	88.9

[1] The Federal Government allows taxpayers to deduct State income taxes in computing net taxable income for Federal purposes and, similarly, Minnesota allows deduction of Federal tax in computing the State tax. New York does not allow deduction of the Federal income tax in computing the State tax.
[2] Federal rates under Revenue Act of 1951, applicable to taxable year 1952; New York and Minnesota rates under income tax laws applicable to taxes paid in 1952.
[3] Prior to allowable deductions for income taxes.
[4] Taking into account reciprocal deductibility under Federal and Minnesota taxes.
[5] Taking into account Federal maximum effective rate limitation of 88 percent.

NOTE.—The effect of deductibility is illustrated only for net income beginning at $20,000, since most low-income taxpayers do not itemize deductions, but use the standard deduction for both Federal and State income tax purposes.

In addition to reducing the over-all burden of the taxpayer residing in income tax States, deductibility has the further effect of minimizing interstate differentials in tax burdens. The combined effective rate of Federal and State income taxes, especially in the higher income brackets, is not appreciably affected by the existence or nonexistence of a State tax. It will be noted by reference to table 5 that at the $1.5 million net income level the net increase in tax for residents in New

York State resulting from the State tax is only 1.3 percentage points. Thus, the Federal income tax protects States against competition from those States which do not have income taxes. Because the deduction reduces the tax liability and diverts much of the impact of the tax from the taxpayer to the Federal Government, States may at present impose or increase income taxes without imposing an equivalent net burden on the taxpayer and with no fear of driving out wealthy taxpayers.

Approximately two-thirds of the income tax States allow taxes paid to the Federal Government to be deducted in computing State lax liability. Table 6 shows the States in which deduction of Federal taxes is permitted. For an individual subject to the Minnesota tax of 10.1 percent on a net income of $200,000, the combined burden of the Federal and Minnesota taxes is 69.5 percent, or only 0.3 percentage points higher than the Federal tax of 69.2 percent. The relatively small effect of the State tax on the total tax burden is a result of the deductibility provisions of both laws. Although it further reduces interstate tax differentials, the mutual deductibility feature of State tax laws reduces the share of income taxes which States might otherwise obtain.

TABLE 6.—*State income taxes: Deductibility of Federal income taxes in computing net income, Jan. 1, 1952* [1]

State	Individual income tax	Corporation income tax
Alabama	Yes	Yes.
Arizona	do	Do.
Arkansas	No	No.
California	do	Do.
Colorado	Yes	Yes.
Connecticut	None imposed	No.
Delaware	No	None imposed.
District of Columbia	do	No.
Georgia	Yes	Yes.
Idaho	do	Do.
Iowa	do	Do.
Kansas	do	Do.
Kentucky	do	Do.
Louisiana	do	Do.
Maryland	No	No.
Massachusetts	Earned income and business income ... Yes. Interest, dividends, annuities, and capital gains ... No.	No.
Minnesota	Yes	Yes.
Mississippi	No	No.
Missouri	Yes	Yes.
Montana	do	Do.
New Hampshire	No [2]	None imposed.
New Mexico	Yes	Yes.
New York	No	No.
North Carolina	do	Do.
North Dakota	Yes	Yes.
Oklahoma	do	Do.
Oregon	do	No.
Pennsylvania	None imposed	Do.
Rhode Island	do	Do.
South Carolina	Yes [3]	Do.
Tennessee	No [2]	Do.
Utah	Yes	Yes.
Vermont	No	No.
Virginia	do	Do.
Wisconsin	Yes [4]	Yes.[4]

[1] In general, each State which permits the deduction of Federal income taxes limits such deduction to taxes paid on that part of income subject to its own income tax.
[2] The tax applies only to intangibles.
[3] The deduction is limited to $250 for calendar year 1951, and to $500 for taxable years beginning on and after Jan. 1, 1952.
[4] The deduction is limited to 3 percent of net income (before deduction of Federal income taxes and charitable contributions) in the case of noncorporate taxpayers and 10 percent in the case of corporations.

Because of deductibility, the combined Federal and State marginal tax rate (i. e., the rate applicable to an additional dollar of income) is never confiscatory for any individual even though the nominal rates together exceed 100 percent. This is illustrated in table 7. For example, in a State which does not permit deduction of the Federal tax, a 10-percent State income tax adds only 3.8 percent to the Federal marginal tax rate at the $20,000 surtax net income level and less than 1 percent at the $200,000 surtax net income level. The taxpayer is protected against confiscatory rates because the State income tax is allowed as a deduction from the top income bracket under the Federal tax. This protection against confiscation is afforded by the deductibility feature of the Federal law whether or not the State grants reciprocal deductibility. Thus, the maximum effective rate of 88 percent under the Federal tax plus a maximum State rate of 15 percent would produce a combined rate of 89.8 percent if the Federal Government permitted, but the State denied, the deduction.[16]

TABLE 7.—*Effect of deductibility [1] on combined Federal and State individual income tax marginal rates,[2] at selected surtax net income levels*

Surtax net income	Federal marginal rate	State marginal rate [3]	State does not allow deduction for Federal tax		State allows deduction for Federal tax	
			Combined Federal and State marginal rate	Percentage points added by State tax	Combined Federal and State marginal rate	Percentage points added by State tax
	Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
$20,000	62	10	65.80	3.80	63.54	1.54
$30,000	67	10	70.30	3.30	68.17	1.17
$50,000	77	10	79.30	2.30	77.57	.57
$100,000	90	10	91.00	1.00	90.11	.11
$200,000	92	10	92.80	.80	92.07	.07

[1] The Federal Government allows taxpayers to deduct State income taxes in computing net taxable income for Federal purposes. Approximately two-thirds of the income tax States allow deduction of Federal tax in computing the State tax.

[2] The marginal rate is the rate applicable to an additional dollar of income. Federal rates under the Revenue Act of 1951, applicable to taxable year 1952.

[3] The top rate is as high as 10 percent in only 3 States (in 1 of these it is 15 percent); in 2 States the top rate is 8 percent; in 24 States it is no higher than 7 percent.

NOTE.—The effect of deductibility is illustrated only for net incomes beginning at $20,000, since most low-income taxpayers do not itemize deductions, but use the standard deduction for both Federal and State income tax purposes.

Because of the 10-percent standard deduction (with an upper limit of $1,000), most taxpayers with incomes of less than $10,000 do not itemize their deductions in computing Federal income tax liability. This factor further limits the benefits of deductibility to the middle and high-income levels where deductions are normally itemized by taxpayers. The growing use of a standard deduction by the States has not greatly restricted the benefits of deductibility where it exists at the State level since most of the States which permit deductibility

[16] In the case of extreme fluctuations of income from year to year, a taxpayer on a cash basis may not obtain full advantage of the deductibility feature if the deduction from the Federal tax does not relate to the same income year as the tax. The use of an accrual basis, however, would give the taxpayer full advantage of the deduction since in his Federal return he would report his State income tax due and payable at the time of reporting rather than the cash outlay for income tax purposes during the previous year.

of Federal taxes allow the standard deduction in addition to this deduction.[17]

b. Uniformity of tax bases and methods of tax computation.—Another factor which has advanced coordination of Federal and State income taxes is the adoption of similar tax bases and methods of tax computation. For example, under legislation enacted by Utah in 1951, taxpayers who use the Federal simplified tax table are permitted to pay 10 percent of the Federal tax in lieu of the amount determined under State rates.[18] Since this provision has been adopted so recently, no appraisal of its usefulness can now be made. In Alaska, the territorial tax is 10 percent of the Federal tax for all taxpayers.

While there are incidental variations which complicate the compliance problems of taxpayers, definitions of net taxable income in the several States often do not differ markedly from each other or from the Federal definition. Vermont's individual income tax law of 1947 adopted the Federal definition of "net income" with certain adjustments, e. g., the exclusion of (*a*) income expressly exempted from taxation by the States and (*b*) capital gains and losses. It also adopted the Federal per capita exemption then in effect ($500), the Federal definition of "dependent," and an optional simplified tax table. Colorado, in 1951, adopted the Federal per capita exemption and standard deduction allowed under present law.

Use of the standard deduction and the simplified tax table is not confined to States which have recently enacted income taxes. On the contrary, most of the income tax States have recognized that these methods are important aids in improving taxpayer compliance, in simplifying tax administration, and in reducing the cost of administration and enforcement. More than two-thirds of the States with individual net income taxes allow either a standard deduction or the use of a simplified tax table, or both (table 8). In all but one case, the standard deduction is permitted in addition to the deduction for Federal taxes.[19] Thus, the simplification derived from the standard deduction is not lost even for individuals whose Federal taxes in combination with other allowances exceed the amount normally allowed for the standard deduction.

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[17] To avoid granting a double deduction, the Federal tax ordinarily is deducted first from total income and the standard deduction is then applied to the reduced total.

[18] In case the Federal rates are increased or decreased, it is mandatory for the State tax commission to adjust the 10-percent rate so that the change in Federal rates will not change the amount of the State tax.

[19] In the one case (Wisconsin) in which Federal taxes are covered by the standard deduction, the deduction for Federal taxes is limited to 3 percent of net income before deduction of Federal taxes and charitable contributions.

TABLE 8.—*State individual income taxes: Provision for use of standard deduction and simplified tax table, Jan. 1, 1952*

State	Standard deduction		Optional tax table
	Percent	Maximum	
Alabama	[1] 7	$500	----------
Arkansas	10	[2] 1,000	----------
California	6	300	X
Colorado	[1] 10	[2] 1,000	X
Idaho	[1] 10	500	[1] [5] X
Iowa			
Kansas	[1] 10	400	----------
Kentucky	[1] 10	500	X
Louisiana	[1] 10	500	----------
Maryland	10	500	X
Minnesota	[1] 10	500	X
Mississippi	8	400	----------
Missouri	[1] 5	500	X
New York	10	500	----------
Oklahoma	[1] 10	500	X
Oregon	[1] 5	250	X
South Carolina	10	[3] 500	----------
Vermont	10	500	X
Virginia	5	[4] 500	----------
Wisconsin	9	450	X
District of Columbia	10	500	----------

[1] The standard deduction is allowed in addition to deduction of Federal income taxes.
[2] $500 for separate returns of married persons.
[3] $1,000 for joint return.
[4] $250 for separate returns of married persons.
[5] Allows standard deduction of 5 percent.

The allowance of income splitting between husbands and wives in computing the Federal income tax has led to less rather than more uniformity in the Federal-State systems. Since its adoption at the Federal level in 1948, income splitting has been adopted in only four States (Oklahoma, Oregon, Louisiana, and Kansas).[20] Income splitting makes administrative cooperation more difficult since husbands and wives with separate incomes may file separate returns at the State level and joint returns at the Federal level. Even in the eight community-property States where most income is automatically divided between husband and wife by law, the spouses must file separate tax returns to obtain the benefits of income splitting for State income-tax purposes. Thus, in all but the four States which have adopted an income-splitting provision, it would be necessary to break up a joint Federal return between husband and wife or to combine separate State returns of husband and wife before the two sets of returns could be made comparable.

Apart from income splitting, there are differences of lesser importance such as the treatment of capital gains and losses, of dividends, and of dependency credits for a part of the taxable year in case of a change in dependency status during the year. Nonetheless, present differences between the Federal and the State tax bases are relatively small and uniformity is not unattainable.

Despite the definite trend toward uniformity, the major difficulties which have been encountered in the program for improving coordina-

[20] Since Louisiana is already a community-property State, income splitting is of assistance to those couples having noncommunity property. The possibility of adopting income splitting in California for the same reason was recently examined by a committee of the State legislature. After a detailed study of the question the committee concluded that "the end of conformity to the Federal law would be promoted but at the expense of loss of revenue to the State. * * * The legislature must decide whether conformity with Federal legislation in this respect is worth what it would cost the State." Report of the Senate Interim Committee on State and Local Taxation, California Legislature, 1951 regular session, April 1951, p. 125.

tion of Federal and State income-tax administration stem from differences in the tax bases. Not all the information obtainable from Federal sources is applicable to the problems confronting the State authorities and some information which is needed at the State level is not available from the Federal material.

The ultimate solution of these difficulties may lie in several directions. States could allow their taxpayers to pay a fixed percentage of their Federal income-tax liabilities as an alternative to computing their taxes under State law. As already indicated, this method is being used in Utah and in Alaska. The reason for the limited use of this method may well be the close tie-in which it implies for State revenues with changes in the Federal law.

Another possible solution is computation of the State and Federal income tax on the same tax return and collection by one collecting authority only. This procedure, which would represent the greatest progress from the point of view of taxpayer convenience, would raise some problems of allocation of income between States and place all the burden of enforcement and collection upon the authority handling the uniform return. Obviously, a great deal of duplication would be eliminated at the same time. The use of the same tax base and the same tax return would not necessarily require the various States to impose similar tax rates. Each State could continue to adjust its rates and exemptions to suit its own revenue needs. Unified administration of income taxes limited to only some of the States would be practicable and others could continue their present independent policy if they desired. Such a system was successfully employed in both Australia and Canada before the last war. In Australia, the Commonwealth administered the state tax in one state, and in the other five the states administered the Commonwealth tax. In Canada, the Dominion administered the taxes of three provinces. Present methods of income-tax coordination in Canada and Australia are discussed below.

If the aim is to eliminate duplication of efforts on the part of tax authorities and on the part of taxpayers while leaving separate Federal and State administrative structures intact, it might be possible to make a functional division of labor between State and Federal authorities. For instance, audit and enforcement work could be shared between the States and the Federal Government.

Regardless of the form which State-Federal cooperation may ultimately take, all efforts in the direction of achieving greater uniformity of the tax base and similarity in methods of tax computation are important. The simplification thus achieved improves taxpayer compliance and morale, reduces the possibility of error in preparing return forms, and makes the interchange of auditing information more effective.

c. Administrative cooperation.—The problems of administration and enforcement of income taxes, in certain respects, are much greater at the State than at the Federal level. In the first place, it is difficult for States to trace income derived by their residents from out-of-State sources. Second, differences between source of income and residence require the use of crediting devices which complicate administration. Third, State budgets are often inadequate to provide effectual enforcement. Administrative cooperation between the Federal Government and the States cannot solve all of the problems of State tax administration. However, as will be shown below, coordination and interchange of information can reduce the burden of administration for the States substantially.

In recent years substantial progress in Federal-State and interstate cooperation in administration of income taxes has been achieved. Under Federal law, income-tax returns are open to inspection by State tax officials for use in administering State tax laws and for the purpose of furnishing information to local tax officials for use in local tax administration. Application for inspection of returns is made to the Commissioner of Internal Revenue by the Governor over the seal of his State, specifying the tax law involved in his request, designating the classes of return, and listing the names of State tax officials who are to have access to the returns.

By regulation, the Commissioner may furnish to the States the bases of the changes made in tax returns where the Bureau has determined the tax liability to be different from that reported by the taxpayer. In a so-called tax "evasion" case which has been finally closed by the Bureau, the adjusted net income figure is furnished in addition to information contained in the return as filed.[21] In a number of States, the taxpayer is required to report any changes made in his Federal return as a result of audit. In some cases, penalties are imposed by law on taxpayers who fail to make such reports.

Upon request to the Bureau of Internal Revenue, State authorities are supplied photostatic copies of returns of specified persons or corporations. They are also permitted to inspect, both in Washington and in collectors' offices, income tax returns for specified years of all persons who are subject to the State tax laws.

The present charge for transcripts is $1.50 per hour per Bureau employee. The charge for photostatic copies of returns is $1 per return and 25 cents for Forms W-2 and other documents related to the final return.[22] A charge of 50 cents is made for certifications. Inspection of returns by State officials in Washington or in collectors' offices and the making of microfllms or of hand transcriptions by representatives of the States are permitted without charge.

During calendar year 1948, 87,618 transcripts of individual and corporation income-tax returns were supplied to 28 States by the Bureau of Internal Revenue. In addition, nine States sent their own representatives to transcribe or microfilm returns. Since these latter methods of obtaining information are available to the States without charge, the Federal authorities keep no record of the number of returns involved. It is evident, however, that the number is far in excess of the total number of transcripts prepared by the Bureau for the States.

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[21] A variety of information is furnished to States upon request in accordance with the particular needs of individual States. To illustrate, abstracts are prepared according to specifications such as the followings (1) All changes in net income, whether increases or decreases; (2) all increases in net income; (3) increase: in net income above State exemption levels; (4) increases in net income above amount set by the State as productive of State tax; (5) item-by-item changes made by revenue agents according to lists of particular items, such as interest, dividends, royalties, inventories, etc.

[22] A recent ruling of the Bureau of Internal Revenue provided that, in those cases where States receive a copy of the Form W-2 from an employer in lieu of a separate information copy, the State's copy can be placed in the second position below the original. (Paragraph 1 (a), A. & C. Circular 2315, October 30, 1950.) The purpose of this ruling was to permit States to obtain more legible copies of Forms W-2.

Access of State officials to information contained in Federal returns has been further facilitated by the decentralization program of the Bureau of Internal Revenue under which individual income-tax returns are now kept in collectors' offices. Transcripts of corporation income-tax returns, however, must still be obtained in Washington.

Since the beginning of 1950, Federal-State cooperation has entered a new phase. In addition to the privileges of inspection and exchange of regular tax return information, audit information is being exchanged between Federal authorities and a number of States. Test projects for the exchange of audit information between the Federal Government and two States (North Carolina and Wisconsin) were authorized on February 6, 1950. In recent months, arrangements for exchange of audit information were concluded with Colorado, Kentucky, and Montana.

Under the procedure adopted for the two initial projects, the examining officers in the offices of collectors and internal revenue agents-in-charge prepare abstracts of audit information for each changed return showing a deficiency in tax.[23]

The abstracts are prepared in longhand by the examining officer at the time his report of examination is made and are attached to the face of the return. After the deficiencies have been listed for assessment, the abstract is detached and forwarded to the State tax authorities. The North Carolina and Wisconsin procedure with respect to the furnishing of abstracts is similar to the Federal practice.

Although the program is still in the experimental stages, both Federal and State authorities agree that, on the whole, it has proved successful. By the end of 1950, Wisconsin had collected about half a million dollars in deficiencies as a result of the program; North Carolina had collected close to $50,000 in deficiencies, although the program in this State did not get under way until August 1950. One of the outstanding features of the program is that State authorities are able to process the abstracts without further field audits. Statistics developed in the State tax office in Wisconsin up to November 1950 showed that of 5,894 abstracts processed, 2,414 resulted in deficiencies. Of these 2,414 cases, 2,297 were closed by office audit and 117 largely by field audit.

In light of the satisfactory results obtained with the test programs, consideration can now be given to the extension of the audit exchange program to other States desiring to participate. The Bureau of Internal Revenue cannot audit each of the 52 million individual income tax returns filed annually. Neither do the States have adequate enforcement personnel to make investigations on the approximately 8 million taxable individual returns which they receive. An exchange of audit results gives better audit coverage at both levels, resulting in substantial increases in collections at minimum cost.

One of the advantages of the audit exchange program is that it spares the taxpayer the inconvenience of being visited successively by different examining officers. It will not be possible for some time to eliminate entirely multiple visits since the centralization of enforcement of Federal and State income taxes in the hands of one and the same enforcement officer is not now in prospect. However, the

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[23] In cases in which the 50-percent fraud penalty is asserted, only the adjusted taxable income and the deficiency are shown on the abstract.

strides made in Federal-State coordination in connection with the income tax audit exchange program indicate the range of possibilities.

In this connection, it should be noted that the audit exchange program is not limited to the exchange of information developed in specific cases in State or Federal offices but also encompasses the exchange of statistical techniques developed in the effort to determine the areas in which enforcement is most needed. The audit control program of the Bureau of Internal Revenue is directed toward the development of new procedures for identification and selection of tax returns especially in need of examination. The Bureau has invested a considerable amount of time and effort in developing plans and sampling techniques for this program. A description of techniques involved was made mavailable to interested States in June 1949.[24] California tax officials have recently indicated that they are formulating plans to conduct a sample audit program along the lines employed by the Bureau.[25]

Another phase of Federal-State cooperation in tax administration which is currently receiving attention is the practicability of withholding by the Federal Government of State income taxes from salaries of Federal employees in those States which have wage-withholding provisions. For a number of years the Federal Government has been furnishing State and local governments which impose income taxes copies of the Federal withholding receipt (Form W-2), indicating the amounts of compensation received by Federal employees located within their jurisdictions. This information is extremely useful to State and local officials in enforcement of their taxes.

At present, only two States (Oregon and Vermont) have withholding provisions applicable to wages and salaries of both residents and nonresidents. Oregon's withholding provision has been in effect since 1948 while Vermont's provision went into effect on July 1, 1951. Five other States (California, Iowa, Kentucky, Maryland, and New York) provide for withholding on wages and salaries of nonresidents only. All the local income taxes on wages and salaries of both residents and nonresidents are withheld at source by the employer.

The question of withholding of State income taxes from Federal salaries has been discussed by State and United States Treasury representatives. While the matter has not been of major importance to State governments in the past, the Treasury has indicated that it looks sympathetically upon extension of the maximum degree of cooperation possible. The Comptroller General of the United States has ruled that specific statutory authorization would be required to permit Federal agencies to withhold State income taxes from Federal employees. The Treasury Department has given its approval to such legislation.[26]

d. State tax jurisdiction.—The use of income taxes at the State level inevitably creates problems of jurisdiction in an advanced industrial economy. The problem arises primarily as a result of the use of domicile in some cases, residence in others, and source of income in others for the purposes of defining income subject to tax. The problem is

[24] An article prepared by Marius Farioletti of the Bureau of Internal Revenue, entitled "The 1948 Audit Control Program for Federal Individual Income Tax Returns," was published in the National Tax Association's National Tax Journal, June 1949, Reprints of the article were distributed to State officials by the Federation of Tax Administrators.

[25] Federation of Tax Administrators, Tax Administrators News, January 1952.

[26] Treasury Department press release S-2779, August 13, 1951.

being met by some States either through granting to their residents credits for taxes paid to other States or permitting nonresidents to credit taxes paid to their State of residence. Most States have adopted one or the other of these rules and, in some cases, both rules have been adopted. Where credits for nonresidents are allowed, they are generally conditioned on the granting of reciprocal credits by other States. Such reciprocal credits, either for residents or nonresidents, would greatly reduce jurisdictional conflicts if they were uniformly adopted in all States.

Under the local income taxes, resident individuals usually are taxed on all income from specified sources regardless of whether it is derived within or without the city. Nonresident individuals are taxed on only that portion of their earnings or net profits arising from activities within the city (table 4).

Pennsylvania has taken steps to prevent double taxation under local income taxes. The State Enabling Act, which authorizes local income taxes, allows credit for income taxes paid to the place of residence against the tax imposed on nonresidents by a municipality where a taxpayer works or operates a business. The community of residence is thus given a priority. In many cases, after a city or borough imposes an income tax, the neighboring governmental untis immediately follow suit and in actual practice the income tax eventually becomes a tax on residents only. If two overlapping political subdivisions impose an income tax on the same person and the combined levy exceeds the statutory rate limitation of 1 percent, the effective rates are automatically halved during the period of duplication. The two units may also agree to divide the maximum rate in any other manner. A city may collect the full 1 percent income tax from nonresidents employed in the city and only one-half of 1 percent from its residents who are also subject to a one-half of 1 percent school district income tax, if the nonresidents make no claim for credit for income taxes imposed at their places of residence.

Ohio cities generally allow residents a credit for taxes paid to other cities or exclude from the tax base income on which a tax has been paid to other cities. Toledo limits its credit to 50 percent of the tax liability and requires reciprocity.

The Federal Government has a vital interest in achieving greater uniformity in matters of tax jurisdiction since the tax status of its own employees is affected. Multiple taxation of compensation of Federal employees is possible because some States tax persons domiciled within the State on their entire income, whether or not they are actually residents, while others tax residents whether or not they consider themselves domiciled there. This matter is becoming increasingly important and Congress has considered proposals to eliminate such multiple taxation.[27]

Except for the adoption of reciprocal credits, little progress has been made in recent years in developing uniform jurisdictional rules in the individual income tax field. This has been due to the large number of jurisdictions involved, the great diversity in treatment among the States, and the lack of a coordinating group to bring the various jurisdictions together.

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[27] For example, the O'Hara bill (H. R. 96, 81st Cong., 1st sess.) would limit State taxes on Federal compensation to the State of domicile.

e. Coordination prospects.—State governments are well established in income taxation. A program for intergovernmental coordination in this area needs, therefore, to proceed on the assumption that both Federal and State Governments will continue in the field. The use of the income tax at the local level does not necessarily aggravate the coordination problem because these taxes are at a low rate, generally do not overlap State taxes, and do not appreciably affect the combined tax burden of the income recipient.

The fact that the area of Federal-State conflict is not as broad as appears at first sight holds promise for further improvement in coordination. The deductibility of State taxes for Federal income tax purposes precludes the imposition of confiscatory levies. It also narrows interstate differentials at middle and high income levels even though State income tax rates and exemptions vary greatly. Mutual deductibility of taxes paid at both the Federal and State level further narrows these differentials.

Improvements have already been realized as a result of recent revisions in State tax laws incorporating some provisions of Federal law. In this connection, the use of the standard deduction and of the simplified tax table is especially important. If the trend toward uniformity continues, unified administration may ultimately be possible.

Such conflicts as exist in the individual income tax field can be resolved in large part without a revolutionary change in the relationship between the Federal Government and the States. Measures which are already tested and proved to be effective are adequate to enable the Federal and State governments to follow an integrated program involving a minimum of administrative expense to the governments and a minimum of compliance costs to the taxpayers.

The passage of time will not of itself resolve the remaining problems of Federal-State income tax coordination. It should be possible, however, to provide a basis for increasing cooperation and administrative coordination either by Federal-State agreements which do not necessarily include all States or, preferably, by a more inclusive type of agreement in which most States could join quickly.

B. CORPORATION INCOME TAXES

The modern Federal corporation income tax originated with the excise tax of 1909 levied at a 1-percent rate on corporate net income above $5,000.[28] A few States had experimented with corporation income taxes prior to that time but the first successful State corporation income tax was imposed by Wisconsin in 1911. By 1942, 32 States and the District of Columbia had adopted this form of taxation, and the same number impose such taxes at the present time. With the exception of Delaware and New Hampshire, all States which tax individual income also tax corporate income. Three States (Connecticut, Pennsylvania, and Rhode Island) that do not tax individual incomes tax corporation incomes.[29]

[28] The tax was levied as an excise on the privilege of doing corporate business, with the privilege being measured by net income.

[29] Almost all States levy a variety of franchise or privilege taxes and fees on domestic and out-of-State corporations for the right of using the corporate form of organization or as a condition of doing business within the particular State. The capital stock tax is one of the commonest forms of privilege levies and is now employed in about three-fourths of the States. In a few States, the capital stock tax is an alternative to the income tax, with the corporation paying whichever tax is higher; but in most cases, it is an additional tax. Because of the special difficulties of applying corporate net income taxes in certain fields, such as banking, insurance, and utilities, many States levy special in lieu taxes on particular types of corporations.

Corporate income taxes are also imposed by five Ohio cities [30] and by Louisville, Ky. Saginaw, Mich., recently enacted an income tax, but the effective date (originally January 1, 1952) has been postponed to July 1, 1952, pending court decision as to its validity. All of these are companion taxes to the low-rate taxes imposed by these cities on salaries and wages and on net profits of unincorporated businesses, and apply to net profits from activities conducted by corporations within the city.

Corporate income and profits taxes have assumed an important role in Federal revenues in recent years, reflecting in part higher levels of corporate earnings and in part higher tax rates and the reimposition of the excess profits tax in 1950. This development has given added importance to problems of intergovernmental tax coordination. Increases in the combined Federal-State burden have focused attention on the allocation of the corporate income base among the States concerned and on methods of integration.

During fiscal year 1951, Federal corporate income and excess profits tax collections amounted to $14.4 billion, accounting for 28.2 percent of total internal revenue collections. In the same year, State corporation income taxes amounted to $682 million, or 7.6 percent of State tax revenues, excluding payroll levies for unemployment compensation.[31]

1. *Federal income and excess profits taxes*

Under present Federal law, the corporation income tax consists of a normal tax of 30 percent applicable to total taxable income, and a surtax of 22 percent which applies to income in excess of $25,000. The total rate is 30 percent on incomes of $25,000 or less and 52 percent on amounts of income in excess of $25,000. In addition, excess profits of corporations are subject to a tax of 30 percent, but this tax may not exceed 18 percent of net income. The combined effective income and excess profits tax rates may not exceed approximately 70 percent of net income.

TABLE 9.—*State corporation net income taxes: Rates Jan. 1, 1952*

State	Net income	Rate
		Percent
Alabama		3
Arizona	First $1,000	1
	$1,001 to $2,000	2
	$2,001 to $3,000	2.5
	$3,001 to $4,000	3
	$4,001 to $5,000	3.5
	$5,001 to $6,000	4.5
	Over $6,000	5
Arkansas	First $3,000	1
	$3,001 to $6,000	2
	$6,001 to $11,000	3
	$11,001 to $25,000	4
	Over $25,000	5
California		[1] 4
Colorado		[2] 4
Connecticut	3 percent (or alternative minimum tax) [3]	
Georgia	5.5 percent (or alternative minimum tax) [4]	

[1] The minimum tax is $25.
[2] The permanent rate is 5 percent. For taxable years 1950 and 1951 the tax is reduced 20 percent.
[3] The alternative tax is: 1½ mills per dollar of the sum of interest-bearing debt; capital stock, surplus, undivided profits and reserves, less deficit and stocks and securities held. Minimum tax, $15.
[4] The alternative tax is: 2 percent of a base consisting of net income plus salaries paid to officers and to stockholders holding more than 5 percent of stock, less $10,000.

[30] Columbus, Dayton, Springfield, Toledo, and Youngstown.
[31] Bureau of the Census, State Tax Collections in 1951, August 1951, p. 3.

TABLE 9.—*State corporation net income taxes: Rates Jan. 1, 1952*—Continued

State	Net income	Rate
		Percent
Idaho	First $1,000	1.5
	$1,001 to $2,000	3
	$2,001 to $3,000	4
	$3,001 to $4,000	5
	$4,001 to $5,000	6
	Over $5,000	8
Iowa		2
Kansas		2
Kentucky		4.5
Louisiana		[5] 4
Maryland		4
Massachusetts		[6] 6.765
Minnesota		[7] 6.3
Mississippi	First $4,000	1
	$4,001 to $7,000	2
	$7,001 to $10,000	3
	$10,001 to $15,000	4
	$15,001 to $25,000	5
	Over $25,000	6
Missouri		2
Montana		[8] 3
New Mexico		2
New York	5.5 percent (or alternative minimum tax)[9] plus tax on allocated subsidiary capital.[10]	
North Carolina		6
North Dakota	First $3,000	3
	$3,001 to $8,000	4
	$8,001 to $15,000	5
	Over $15,000	6
Oklahoma		4
Oregon		[11] 8
Pennsylvania [12]		5
Rhode Island	5 percent (or alternative minimum tax)[13]	
South Carolina	4.5 percent (or alternative minimum tax)[14]	
Tennessee		3.75
Utah	3 percent (or alternative minimum tax)[15]	
Vermont		[16] 4.6
Virginia		[17] 5
Wisconsin	Normal tax:	
	First $1,000	2
	$1,001 to $2,000	2.5
	$2,001 to $3,000	3
	$3,001 to $4,000	3.5
	$4,001 to $5,000	4
	$5,001 to $6,000	5
	Over $6,000	6
	Surtax: equal to normal tax less $75 divided by 6.	
District of Columbia		5

[5] A specific exemption of $3,000 is allowed against net income. The $3,000 exemption is prorated according to the proportion of total net income taxable in Louisiana.

[6] The rate includes: The basic 2.5 percent rate, two temporary additional normal taxes of 1.5 percent each, a permanent surtax of 3 percent of tax and a temporary surtax of 20 percent of tax for the years 1950–53.

[7] Includes the permanent 6-percent rate and the surtax of 5 percent of the tax applicable to the years 1949–58. The minimum tax is $15 (including a $5 filing fee).

[8] The minimum tax is $5.

[9] The alternative taxes are: (*a*) 4.5 percent of 30 percent of a base obtained as follows: (entire net income plus compensation paid to officers and holders of more than 5 percent of issued capital stock) minus ($5,000 plus net loss for the reported year), or the portion of such amount allocated to the State; or (*b*) 1 mill per dollar valuation of allocated business and investment capital. Minimum tax, $25.

[10] The rates on subsidiary capital are: First $50,000,000, ½ mill per dollar; $50,000,001–$100,000,000, ¼ mill per dollar: over $100,000,000, ⅛ mill per dollar.

[11] The minimum tax is $10.

[12] Applicable to taxable years 1951 and 1952. The permanent rate is 4 percent.

[13] Applicable to calendar year 1951 and to portions of the fiscal years 1950–51 and 1951–52 falling within 1951. The alternative tax is 40 cents per $100 on corporate excess. The permanent rate is 4 percent.

[14] The alternative tax is: 3 percent of a base obtained as follows: (entire net income plus compensation paid to officers and to stockholders owning in excess of 5 percent of issued capital stock) minus ($6,000 and deficit, for year).

[15] The alternative tax is: 1/20 of 1 percent of the value of the tangible property within the State. Minimum tax, $10.

[16] Includes the surtax of 15 percent of tax applicable to taxable years 1951 and 1952. The permanent rate is 4 percent. The minimum tax is $25 ($28.75 for the period Jan. 1, 1951, to Dec. 31, 1952).

[17] Reductions in tax depending upon State revenue yield are allowed. For taxable year 1950, the reduction was 20 percent.

2. State and local taxes

Of the 32 States which tax corporate income 26 apply flat rates and six graduate rates (table 9). The rates of tax are relatively low compared with the Federal levy, ranging between 2 percent and 8 percent, as follows: [32]

Rate:	Number of States	Rate—Continued	Number of States
2 percent	4	5 percent	5
3 percent	4	5.5 percent	2
3.75 percent	1	6 percent	4
4 percent	5	6.3 percent	1
4.5 percent	2	6.765 percent	1
4.6 percent	1	8 percent	2

All the taxes imposed by local governments are low, flat-rate taxes (in no case more than 1 percent) and in only one case (Louisville, Ky.) do these taxes overlap State taxes.[33]

3. Coordination developments

a. Deductibility.—Under Federal law, State corporate income taxes are allowed as a deduction in computing net income for Federal corporate income and excess profits taxes. Approximately two-thirds of the States levying such taxes permit taxes paid to the Federal Government to be deducted in computing State tax liability (table 6).

The deductibility feature, whether applicable under the Federal tax alone or on a mutual basis, affects the burden of the tax and the distribution of the combined net revenue among Federal and State Governments.

Table 10 illustrates the effect of deductibility of corporate income taxes at selected levels of net income under Minnesota law, which allows deduction of Federal tax, and under Pennsylvania law, which does not allow such deduction. In the case of a $250,000 net corporate income, for example, the effective rate of the Federal income and excess profits tax alone (assuming no State tax) is 67.8 percent.[34] Under Minnesota law, which imposes a tax of 6.3 percent, the combined effective rate of both taxes, as a result of reciprocal deductibility, is 68.2 percent or only 0.4 percentage point above the Federal tax alone. Under Pennsylvania law, which does not allow the Federal tax as a deduction, the combined effective rate of Federal and State tax amounts to 68.7 percent.

[32] For the 6 States which apply graduated rates, the highest bracket rate is used.
[33] Ohio and Michigan impose no corporate net income tax. Pennsylvania, which permits its local subdivisions to tax specific types of individual income, prohibits taxes on corporate income because this type of tax is imposed by the State.
[34] These computations assume a Federal excess profits tax credit of $100,000.

TABLE 10.—*Effect of deductibility*[1] *on combined Federal and State corporation income and excess profits taxes,*[2] *at selected net income levels*

Net income[3]	Effective rate of tax				
	Federal (assuming no State tax)[4]	State		Combined Federal and State	
		Pennsylvania	Minnesota (assuming no Federal tax)	Pennsylvania	Minnesota[5]
	Percent	*Percent*	*Percent*	*Percent*	*Percent*
$25,000	30.0	5.0	6.3	33.5	33.1
$50,000	41.0	5.0	6.3	43.4	42.8
$100,000	46.5	5.0	6.3	48.9	48.2
$250,000	67.8	5.0	6.3	68.7	68.2
$1,000,000	69.5	5.0	6.3	71.0	70.1
$10,000,000	69.9	5.0	6.3	71.4	70.5

1 The Federal Government allows taxpayers to deduct State corporation income taxes in computing net taxable income for Federal purposes and, similarly, Minnesota allows deduction of Federal taxes in computing the State tax. Pennsylvania does not allow deduction of Federal taxes in computing the State tax.
2 Federal corporation income and excess profits tax rates under the Revenue Act of 1951, applicable to taxable year 1952. Pennsylvania and Minnesota rates under income-tax laws applicable to taxes paid in 1952.
3 Prior to allowable deductions for corporation income and excess-profits taxes.
4 Federal tax includes normal tax, surtax, and excess-profits tax. A base period earnings credit of $100,000 is assumed. The excess-profits tax is subject to a limitation of 18 percent of net income.
5 Taking into account reciprocal deductibility under Federal and Minnesota taxes.

The deductibility of State taxes substantially wipes out overlapping of Federal and State taxes. In effect, it amounts to Federal sharing of corporate tax revenues with the taxing States.

b. Uniformity of tax bases.—Coordination of Federal and State corporate income taxes has been furthered also by the adoption of similar definitions of tax bases. Several States use the Federal definition of "net income," with certain necessary adjustments, for corporate tax purposes.[35]

In a number of instances, existing differences between Federal and State corporate income tax bases are so small that uniformity is not far removed. Coordination studies have been primarily concerned with the more difficult matters of State tax jurisdiction and nonconformity of methods of allocating taxable income among the States and administrative cooperation. Uniform definition of the tax base is a comparatively easily attainable objective which would provide a groundwork for the solution of other problems.

More extensive standardization would be required to provide a better basis for the development of uniform allocation methods which are of particular importance under the corporate income tax.

c. State tax jurisdiction.—Basically, State taxation of business income is much more difficult than Federal taxation since geographic division of income derived from interstate business is necessarily arbitrary to a certain extent. Accordingly, competing jurisdictional claims of the States and multiple taxation of income derived from interstate business are among the most difficult problems in corporate income taxation. This is inherently a matter for coordination among the several States and not between the Federal Government and the States.

35 Among the States which follow Federal practice most closely are Connecticut, Massachusetts, New York, Pennsylvania, and Vermont.

A State in which a corporation is domiciled or chartered has power, subject to its own constitutional limitations, to tax the corporation's entire income from all sources. However, a State may tax an out-of-State corporation only on income earned within its borders. Although the income of domestic corporations need not be allocated, most States provide some method for apportioning the incomes of interstate corporations. The use of different allocation bases by the States, however, creates possibilities of both multiple taxation and complete exemption of substantial segments of corporate income. Thus, the sum of the parts of a particular corporation's income allocated to the various States may differ substantially from its actual total income.

The problems of jurisdiction and State allocation methods have received considerable attention in recent years. States have been urged by the Council of State Governments to adopt uniform and reciprocal rules for the allocation of income arising from interstate transactions or income arising outside the State of domicile or charter of the taxpayer.[36] Study has been given to the problem of apportionment by such organizations as the National Association of Tax Administrators. One of the most recent studies is that made by a committee of the National Tax Association.[37]

Three general methods of apportionment are available and in use: (1) Separate accounting to reflect the income and expenses attributable to operations in each State; (2) the direct allocation of income or transactions by situs, usually regarded as an adjunct to other methods for use in the case of particular types of business or transactions; and (3) the formula method of apportionment, based on such factors as sales, payrolls, and property.

In general, the formula method has most support. A three-factor formula, based on a combination of sales, tangible property, and payrolls has been advocated by some groups. As a result of the efforts of the National Tax Association and other organizations, six States have adopted the three-factor formula during the past decade and at present approximately half of the State corporate income taxes employ this formula.[38] Adoption of the formula, however, has not produced complete uniformity because of variation in the methods of allocating each of the three factors. The allocation of sales appears to be particularly difficult.

In 1950, the National Tax Association Committee on Tax Situs and Allocation recommended three proposed rules for apportionment of income from multi-State business, including (1) use of the three-factor formula for most industrial enterprises and transportation and communication, (2) application of separate accounting for the finance group generally and certain public utilities, with some adjustment for headquarter activities of the taxpayer, and (3) discretionary application of special formulas based on sales or other income-producing functions in situations where a standard formula or method would work unfairly.[39]

An outstanding example of multiple taxation in State corporation taxation and one in which the Federal Government has had a special

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[36] Council of State Governments, Wartime and Postwar Problems and Policies of the States, 1944, p. 44.

[37] Second Preliminary Report of the Committee on Tax Situs and Allocations, Proceedings of the National Tax Association, August 1950.

[38] Tax Institute Symposium, Income Tax Administration, 1948, p. 295 (Tax Institute, Inc., New York).

[39] Second Preliminary Report of the Committee on Tax Situs and Allocations, Proceedings of the National Tax Association, August 1950, pp. 350–352.

interest is taxation of airlines. Although the problem of allocation first arose in connection with property taxation, allocation of the income tax base is a closely related problem. In 1944, the United States Supreme Court upheld a Minnesota law under which the entire fleet of aircraft of the Northwest Airlines was assessed for property taxation in Minnesota, the legal corporate domicile of the corporation, although some of the aircraft were being taxed on an allocation basis in several other States. In upholding the Minnesota statute, the Supreme Court clearly indicated the desirability of Congressional action which would clarify the rights of States with respect to taxation of property and business of airlines. This and other decisions affirmed the power of Congress to lay down rules as to the extent to which the States may or may not burden interstate commerce by taxation.

Following the Northwest Airlines decision, Congress directed the Civil Aeronautics Board, in consultation with State and local officials, to investigate and recommend means for eliminating State and local multiple airline taxation which unduly burdens air commerce.[40] The Board concluded that it was extremely doubtful that the States would be able to solve the multiple taxation problem without aid or direction from the Congress.[41] It recommended that Congress prescribe a uniform basis for the determination of taxable situs and set up formulas for allocating the tax base among the States. After consultation with State and local officials, representatives of the airlines, and other interested individuals and corporations, specific rules were worked out by the Civil Aeronautics Board for allocating the property and income tax base of airlines. Bills introduced in the Eightieth and Eighty-first Congresses followed closely the recommendations of the CAB report, but no action was taken on them.

The Council of State Governments and the National Association of Tax Administrators continued to work on an allocation formula intended for uniform adoption in States which tax flight property and income of air carriers. At the 1947 General Assembly of the States (Council of State Governments) an allocation formula was approved and included in the list of proposed uniform laws recommended to the States for adoption.

Study of this problem at both the Federal and State levels revealed the difficulties involved in developing a formula which would be acceptable to all States. States which would benefit from a specific formula might be willing to adopt the uniform statute while others to which the formula proved disadvantageous would not accept it. Yet multiple taxation could be prevented only if the uniform statute were adopted universally.

The usefulness of joint study of the airlines problem over the past few years by Federal and State authorities, however, is obvious. The States are on record as endorsing the need for an equitable distribution of the tax base. The State of Minnesota, despite its victory in the Northwest Airlines case, shortly thereafter amended its laws to provide an apportionment formula. A small number of States have already adopted the formula approved by the Council of State Governments and the National Association of Tax Administrators for

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[40] Public Law 416, 76th Cong., 2d sess., as amended.
[41] Civil Aeronautics Board, Multiple Taxation of Air Commerce (House Doc. No. 141, 79th Cong., 1st sess.).

purposes of allocating property of airlines and at least one State (Connecticut) uses it in allocating income.

d. Administrative cooperation.—The progress in Federal-State cooperation in the administration of income taxes has been discussed above in connection with the individual income tax. The transcript service, described there in detail, is the most significant present form of Federal assistance to State tax administration. The Federal-State audit-exchange program now in operation in five States covers only individual income tax returns, but ultimate extension of the program to corporation income tax returns is contemplated.

e. Coordination prospects.—Federal-State conflict in the corporate tax field is limited by deductibility of State taxes in computing Federal income tax and by deductibility of Federal taxes for State income-tax purposes. Recent increases in the Federal corporate and excess-profits taxes have reduced the net burden of State levies and have further narrowed interstate differentials. Unlike the individual income tax field, in which the use of the standard deduction has restricted the effect of deductibility for most taxpayers at low and moderate income levels, the deductibility feature serves as a generally useful Federal-State tax integration device for corporations. Moreover, under the corporation income tax with a general rate of 52 percent, which is substantially higher than the rate applicable to the great majority of individuals, the deduction feature is a more uniform and effective integrating device.

The most promising areas for progress in coordination would appear to lie in the direction of (*a*) intensified Federal-State and interstate cooperation in tax administration, (*b*) greater uniformity in the definition of tax bases, and (*c*) resolution of jurisdictional conflicts between the States, particularly through more uniform and effective apportionment. Of these, the development of uniform income allocation methods is the most important. This objective would be facilitated by the adoption of uniform and equitable tax bases by the States which would provide a foundation for the adoption of consistent apportionment rules.

C. INCOME TAX COORDINATION IN CANADA AND AUSTRALIA

The wartime experiences and postwar fiscal coordination programs of Canada and Australia are of interest since these countries are in the process of working out problems somewhat similar to ours. The techniques employed there, however, are not necessarily relevant to the United States because of vastly different conditions in those countries, including important differences in the historical relationships between Federal and State (or provincial) governments.

The coordination of Federal and State income taxes has played an important part in the broader issues of fiscal coordination in both Canada and Australia. Prior to World War II, come coordination had been achieved between the Commonwealth and State income taxes in Australia and the Dominion and provincial taxes in Canada through elimination of duplicate administration.[42] However, the problem of duplicating rates remained. As a war measure, the Federal Government in both countries took over the income tax field for the

[42] In Australia, the Commonwealth administered the State tax in one State and in the other five the States administered the Commonwealth tax. In Canada, the Dominion administered the taxes of three provinces.

duration of the war and in return gave the States grants equal to their prewar revenue from this source. This action was justified on grounds of the Federal Government's need for revenue to finance the war and the usefulness of heavy income taxes in the control of inflation.

In working out postwar arrangements with their States, the Federal Governments of these two countries have met with varying degrees of success. In Australia, the Federal Government indicated its intention at the January 1946 Premiers' Conference to continue the exclusive use of the income tax permanently. After long conferences the States accepted this decision, but insisted on a revision of the reimbursement grants. Instead of replacement grants equal to the prewar revenue of the States from the income tax, the postwar grant arrangement employs an adjusted population basis which takes into account both the age distribution and the density of population. Thus, the new basis involves an important geographic redistribution of revenues, designed to favor sparsely populated States and States with growing populations (with special weight given to the age group 5 to 15 years). The formula will thus extend increasing grants to States which need additional educational facilities. This reimbursement arrangement will be subject to review in 1953.

The Canadian Dominion-Provincial wartime tax agreements expired in the spring of 1947. In anticipation of the termination of these agreements, a Dominion-Provincial Conference was held in August 1945. In this Conference, the Dominion submitted a comprehensive program of fiscal coordination which included a broad social-security program to be financed in large part by the Dominion Government, and offered to the Provinces increased compensation for continued release to the Dominion of the Provincial right to impose income taxes, as under the wartime agreement. In addition, the Provinces were asked to give up succession duties. Compensation for the use of these tax sources was to take the form of per capita grants which would be subject to upward adjustment for increases in population and gross national product.

No general agreement with the Provinces could be reached primarily because of the opposition of Ontario and Quebec and, in June 1947, the Dominion offered to negotiate with individual Provinces a 5-year agreement covering taxation only. Seven of the Provinces signed agreements in 1947, under which they agreed to suspend the imposition of an individual income tax for the 5-year period and to impose only a 5-percent uniform corporation income tax which employs the same basis as the Dominion tax and is administered by the Dominion.[43] The revenue from the 5-percent corporation tax is turned over to the Provinces but an offsetting deduction is made against the payments which the Provinces receive under the tax agreements. The corporation income taxes of the signing provinces apparently expired at the end of 1951. In a letter of January 10, 1952, to the Provincial Treasurers regarding the proposed renewal of the tax agreements, the Dominion Minister of Finance suggested that the corporation income taxes might now be dropped by the Provinces which enter into agreements. If this were done, he suggests that a tax credit might be allowed up to 5 percent of the Federal tax to taxpayers in those

[43] Upon entering the union in 1949, the new Province of Newfoundland also entered into similar agreements for the years 1949 to 1951.

Provinces which do not enter into tax agreements and continue to impose a provincial tax on corporate income.

Ontario and Quebec have not signed agreements, but up to the present have refrained from imposing an individual income tax although they impose a 7-percent corporation income tax and succession duties. With respect to the latter tax, the Dominion allows a credit up to one-half of its own tax for Provincial tax paid on the same estate. The signing Provinces repealed their succession duties upon entering the agreement.

In anticipation of the termination of these postwar agreements on March 31, 1952, a conference was held in December 1950 to consider new tax agreements. At this conference, the Dominion offered to enter into new arrangements for the 5 years 1952 to 1956 on revised financial terms which contemplated an increase of approximately 50 percent in the guaranteed minimum payments to the provinces and undertook to meet the full cost of an old-age pension of $40 a month without means test for all persons over 70 years of age.

The conference adjourned after a 4-day meeting to allow the provincial delegates to study the Dominion proposals. On January 10, 1952, the Finance Minister of the Dominion addressed a letter to the Provincial Treasurers regarding the renewal of the tax agreements. He pointed out that the suggestions which had been received from the Provincial Governments since the conference had been directed mainly toward obtaining the guarantee of a higher level of minimum payments than that originally offered. In considering these suggestions, the Dominion officials had been forced to balance the increasing needs of Provincial Governments against the continuing heavy burden on the Federal treasury for defense and other outlays and had concluded that it would be unwise for the Dominion to assume any heavier fixed commitments than those involved by the guaranteed minimum payments under the proposals made at the December 1950 conference.

Although as of March 1, 1952, only one Province had entered into a new agreement, it appears highly probable that all of the eight Provinces which previously signed agreements will renew them. There is no indication, however, that Ontario and Quebec will participate in the agreements.

IV. Inheritance, Estate, and Gift Taxes

Federal and State governments derived $908 million from death and gift taxes in the fiscal year 1951. The Federal share amounted to $708 million or 1.6 percent of total Federal tax revenues and the States' share was $196 million or 2.2 percent of total State tax revenues.[44]

A. FEDERAL ESTATE AND GIFT TAXES

The present Federal tax on transfers of property at death dates from 1916, but the Federal Government has levied death taxes of various types periodically since 1798.[45] Unlike the previous inheritance taxes of both the Federal Government and the States, the 1916

[44] Total Federal and State tax revenues are exclusive of social security and employment taxes.

[45] In 1798 a tax was imposed on transfers of property at death. It remained in effect until 1802. At the outbreak of the Civil War in 1861 a modern inheritance tax was enacted which was not repealed until 1870. The Federal Income Tax of 1894 included a tax on inheritances but this was nullified when the income tax law was declared unconstitutional. The war revenue bill of 1898 included a graduated inheritance tax on transfers of personal property which remained in effect until 1902.

tax was imposed on the transfer of the entire estate rather than on the amount going to each beneficiary. Rates were initially graduated to 10 percent and were increased to a maximum of 25 percent during World War I. With the end of the war, rates were reduced on smaller estates but were retained at the same level on large ones. In 1924 rates were further increased to a maximum of 40 percent but in 1926 this was reduced retroactively to 20 percent.

The postwar discussion of the continuation of the Federal Government in this field was resolved in 1924 by the introduction of a credit for State taxes up to 25 percent of the Federal levy. The credit, raised to 80 percent in 1926, served a double purpose. It encouraged uniformity in the level of State death taxes in order to deter interstate competition for wealthy residents and reduced the over-all burden of Federal and State death taxes. The net effect of this device was to permit the States, through appropriate legislation, to receive credit up to 80 percent of the Federal tax. Within this limit, State taxes have the effect of preempting for the States revenue which otherwise would be payable to the Federal Government.

In 1932, the Congress enacted higher rates, with a maximum rate of 45 percent. The maximum rate under the basic tax, which continued to be shared with the States, remained at 20 percent. At present, estates are subject to rates ranging from 3 percent on the first $5,000 to a maximum of 77 percent on that portion of taxable estates in excess of $10 million. An exemption of $60,000 is provided. However, the State death-tax credit is still computed under the 1926 law with $100,000 exemption and at rates ranging up to 20 percent. After allowance for State death-tax credit, the maximum Federal rate is about 61 percent.

A gift tax, adopted in 1924 and repealed 2 years later, was restored in 1932 and has remained an integral part of the Federal property-transfer tax structure. Since 1932, gift-tax rates have consistently been 75 percent of estate-tax rates. A lifetime exemption of $30,000 is provided in addition to an annual exclusion of $3,000 for each donee.

Since 1941 Federal estate and gift tax rates have remained unchanged. However, the 1948 revenue act carried the "income-splitting" concept into the estate and gift taxes and reduced substantially the yield of these taxes. Under this legislation, the old provisions relating to community property—under which the property of married persons was split between husbands and wives for estate and gift tax purposes—were restored. In addition, in the case of noncommunity property, a marital deduction not to exceed one-half of the estate was allowed for property transferred to the surviving spouse. When a gift of noncommunity property is made by one spouse to another, only one-half the gift is taxable. In the case of a gift of noncommunity property to a third person, the spouses may elect to treat the gift for tax purposes as though made one-half by each spouse.

The effect of the 1948 legislation was to increase greatly the amount of property which married persons might transfer free of tax. In addition to the fact that up to one-half of a decedent's property may be transferred to his spouse without tax, gift splitting in effect doubles the annual exclusion and the lifetime gift tax exemption for married couples in cases where all property is attributable to one spouse.

Federal estate and gift tax revenue has failed to keep pace with total Federal revenue. It increased from about $360 million in 1939 to a peak of about $900 million in 1948, but has declined to $708 million in 1951, principally as a result of the marital deduction enacted in 1948. Although Federal estate and gift tax revenues are now about twice the prewar level, they amounted to only 1.5 percent of net budget receipts in 1951 compared with about 7 percent in 1938–40.

B. STATE DEATH AND GIFT TAXES

The history of State death taxes begins with the inheritance tax on collateral heirs enacted by Pennsylvania in 1825. Several other States followed Pennsylvania's example, with direct as well as collateral heirs being made subject to tax. Following the Civil War these taxes fell into disuse, with the result that by 1885 substantial inheritance taxes were in force in only two or three States. The imposition of a 5-percent tax on collateral heirs by New York State in 1885 marked a turning point in State inheritance taxes. In 1903, Wisconsin established a pattern for future State taxes by the enactment of progressive rates on transfers to direct and collateral heirs, refinements in the definition of taxable property, and improved centralized administration.

By 1916 all but five States had adopted some form of inheritance tax. The introduction of the Federal credit in 1924 and its increase to 80 percent in 1926 were followed by a drastic revision of State laws to make use of the credit. Several States, including New York, shifted to the simpler estate tax used by the Federal Government. All States except Nevada now have death duties.

Four types of State death taxes are now in use: inheritance tax, estate tax independent of the Federal levy, the so-called differential estate tax (designed to absorb the difference between State duties otherwise imposed and the maximum credit allowed under the 1926 act), and estate tax based on the Federal levy.

Table 11 indicates the types and combinations of death duties imposed by each of the States. Thirty-seven States levy inheritance taxes. Three have only this type of death duty. Thirty-three of the inheritance tax States have also enacted differential estate taxes; [46] Rhode Island imposes still a third death duty in the form of an independent estate tax. Oregon, the remaining inheritance tax State, does not levy a differential estate tax but imposes an independent estate tax.

TABLE 11.—*Types of State death taxes, January 1, 1952*

1. Inheritance tax only: Idaho, South Dakota, West Virginia, Alaska.
2. Estate tax based on Federal levy: Alabama, Arizona, Arkansas, Florida, Georgia, Mississippi, New York.
3. Inheritance and differential estate tax: Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, Ohio, Pennsylvania, South Carolina, Texas, Vermont, Wyoming, District of Columbia, Hawaii.
4. Inheritance and differential estate tax (also gift tax): California, Colorado, Louisiana, Minnesota, North Carolina, Tennessee, Virginia, Washington, Wisconsin.
5. Inheritance and independent estate tax (also gift tax): Oregon.

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[46] Inheritance taxes are levied by the District of Columbia and the Territories of Hawaii and Alaska. The District of Columbia and Hawaii levy differential estate taxes as well.

6. Independent estate tax: North Dakota, Utah.
7. Independent and differential estate tax (also gift tax): Oklahoma.
8. Inheritance, independent and differential estate tax (also gift tax): Rhode Island.
9. No transfer tax: Nevada.

Ten States taxing the transfer of property at death do not levy inheritance taxes. Two of these, North Dakota and Utah, levy only an independent estate tax. Five (Alabama, Arizona, Arkansas, Florida, and Georgia) have enacted estate taxes conforming in their entirety to the provisions of the 1926 Federal estate tax. Mississippi's estate tax is based upon the provisions of the 1926 Federal tax, but with an exemption of only $50,000. New York imposes the 1926 Federal rates but exemptions are taken out of the first bracket. Oklahoma levies an independent and a differential estate tax.

Rates and exemptions vary greatly even among States which levy the same types of death taxes. Under the estate taxes, exemptions range from $10,000 to $100,000 and maximum rates range from 10 percent in Utah to 23 percent in North Dakota. The inheritance tax exemptions range from $75,000 for widows to no exemptions in many States for distantly related relatives. Tax rates in Minnesota range up to 60 percent on inheritances of distantly related beneficiaries. The differential estate tax rates range from three-fourths of 1 percent to 16 percent. These differential taxes are paid to the extent that they exceed the regular inheritance or estates taxes.

State gift taxes are generally patterned after the State death taxes. The gift tax structure in Oregon is similar to that used by the Federal Government. In Wisconsin, the gift tax is levied each year without reference to prior-year gifts. In the other States, the Federal system of adding current-year gifts to prior-year gifts is followed but the aggregation is made for each donee instead of the donor.

Gift-tax exemptions, annual exclusions, and rates vary among the States. In California, for example, exemptions range from $50 for gifts to distant relatives to $24,000 for gifts to a wife; Rhode Island allows an annual exclusion of $4,000 of gifts to any donee and a specific exemption of $25,000 to the donor with respect to total gifts. Rates generally are not more than 10 percent for gifts to members of the immediate family. In Minnesota, however, they may range as high as 35 percent for any one gift.

C. OPERATION OF THE FEDERAL CREDIT

Death-tax burdens continue to vary widely among the States. Only a few States confine their taxes to 80 percent of the 1926 Federal rates. Most States impose additional taxes on estates of less than $100,000, not taxed in the 1926 act, and also levy burdens in excess of the amount allowed as a credit against Federal tax on larger estates.[47]

On an over-all basis, the present Federal credit now amounts to only about one-half of State death-tax revenues. This is illustrated by table 12 which relates 1945 and 1948 State death-tax collections to the credit claimed on Federal returns filed in those years. In 1948,

[47] Twenty-four States, Alaska, and the District of Columbia have enacted legislation providing for deduction of the Federal estate tax before computing the State-inheritance taxes. The States in which such deductions are allowed are California, Idaho, Illinois, Iowa, Kansas, Kentucky, Maine, Maryland, Massachusetts, Minnesota, Missouri, Montana, Nebraska, New Hampshire, North Carolina, North Dakota, Ohio, South Carolina, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming.

credit for $82 million out of total State death-tax collections of $180 million was claimed on Federal estate-tax returns as filed. For any particular State, the ratio of the credit to collections is affected primarily by the rates and exemptions of the State tax, but it may be affected by differences in timing of State tax payment and Federal filing and also by the fact that the credit claimed on a Federal return may represent death duties paid to more than one State. This ratio is understated in table 12 to the extent that credit is claimed subsequent to the filing of returns due principally to the assessment of deficiencies as a result of audit.

TABLE 12.—*State death tax collections in 1945 and 1948 and credit for State death taxes claimed on Federal estate tax returns filed in those years*

[In thousands]

State	1945		1948	
	Collections	Credit for State taxes	Collections	Credit for State taxes
Alabama	$248	$113	$441	$350
Arizona	57	9	101	75
Arkansas	211	120	196	93
California	10,341	4,366	19,400	6,872
Colorado	1,273	287	2,104	231
Connecticut	4,890	2,672	4,979	2,177
Delaware	502	2,688	936	1,072
Florida	2,600	1,406	2,264	1,219
Georgia	431	319	1,096	1,236
Idaho	143	5	163	37
Illinois	7,462	2,334	8,954	4,835
Indiana	1,984	819	2,479	490
Iowa	2,218	224	3,205	243
Kansas	584	121	839	258
Kentucky	1,603	143	2,427	452
Louisiana	1,086	1,530	1,327	604
Maine	813	139	1,353	262
Maryland	2,132	525	2.824	440
Massachusetts	8,059	2.834	9,698	2,454
Michigan	6,418	1,208	10.675	8,691
Minnesota	1,972	872	3,530	1,179
Mississippi	86	78	229	159
Missouri	1,512	1,741	2,941	1,899
Montana	821	2	648	41
Nebraska	24	87	183	336
New Hampshire	819	107	947	261
New Jersey	8,557	2,353	8,482	3,053
New Mexico	101	525	120	48
New York	27,908	19,348	34,528	22,701
North Carolina	1,273	167	1,720	731
North Dakota	145	13	95	22
Ohio	6,863	2,711	4,913	2,381
Oklahoma	1,379	712	1,502	200
Oregon	1,007	220	1,351	302
Pennsylvania	18,324	7,471	23,988	7,646
Rhode Island	1,119	440	1,441	961
South Carolina	293	30	502	332
South Dakota	132	9	214	17
Tennessee	1,052	184	1,753	434
Texas	1,973	1,279	2,426	4,709
Utah	189	66	449	54
Vermont	328	468	418	69
Virginia	772	302	1,086	462
Washington	2,007	724	3.040	435
West Virginia	616	156	992	210
Wisconsin	3,306	1,264	4,547	1,008
Wyoming	51	19	121	6
District of Columbia	1,623	886	2,102	702
Total	137,347	64,096	179,729	82,449

NOTE.—Figures are rounded and do not necessarily add to totals.

Sources: Collections from U. S. Department of Commerce, Bureau of the Census, State Finances; credit based on statistics from unaudited returns as tabulated in Statistics of Income.

Because of the limitation of the credit to 80 percent of the 1926 estate tax, substantial increases in the Federal estate tax rates have greatly reduced the States' share of total death tax revenues. No credit is allowed for taxes paid to States on the large number of federally taxable estates valued at less than $100,000 assessed on the basis of a $60,000 exemption,[48] or under the higher tax rates imposed beginning with 1932.

Between 1931 and 1948 the percentage of Federal estate tax liability represented by credits claimed for taxes paid to the States declined from 76 to 10 percent. Table 13 shows the relation of State death tax credits to tentative Federal estate tax liability on a State-by-State basis for selected years 1941–48. The table shows considerable variation in relative credit both among States during any given year, and from year to year in the same States. For returns filed in 1948, for example, the Federal credit ranged from a low of 2.4 percent in Wyoming to a high of 15.3 percent in Michigan.

TABLE 13.—*State death tax credit as a percent of tentative Federal estate tax liability (before credit)*

[Based on aggregates of all estates taxable under Federal law]

State	1941	1943	1945	1948
Alabama	8.7	5.9	6.0	7.7
Arizona	15.9	10.1	3.4	4.5
Arkansas	4.1	6.4	7.4	4.9
California	15.3	7.1	9.7	9.2
Colorado	13.6	13.2	7.6	6.8
Connecticut	14.9	10.9	11.4	10.1
Delaware	12.9	14.8	16.5	13.3
Florida	15.1	11.6	9.9	8.8
Georgia	14.8	6.3	7.7	11.4
Idaho	4.9	5.1	2.9	3.8
Illinois	13.1	9.1	7.6	7.3
Indiana	11.8	7.5	8.6	6.6
Iowa	9.1	4.8	5.4	4.2
Kansas	11.2	5.2	4.9	5.5
Kentucky	10.5	5.7	5.9	7.1
Louisiana	10.4	8.7	12.6	8.3
Maine	13.1	8.5	6.2	7.0
Maryland	11.4	8.0	7.5	6.5
Massachusetts	14.3	7.6	9.8	8.4
Michigan	16.7	10.7	8.9	15.3
Minnesota	10.3	8.0	10.6	11.0
Mississippi	8.0	5.8	7.9	6.7
Missouri	12.3	5.7	10.9	9.4
Montana	6.5	4.4	1.5	5.4
Nebraska	13.5	5.5	5.5	6.9
Nevada	----	11.1	----	----
New Hampshire	7.3	9.6	6.7	9.1
New Jersey	11.3	13.5	9.1	9.7
New Mexico	2.6	2.4	15.0	6.3
New York	18.7	8.5	12.8	12.7
North Carolina	19.1	4.3	6.0	8.4
North Dakota	2.4	4.2	5.1	3.8
Ohio	18.4	7.0	10.6	8.1
Oklahoma	7.8	4.4	11.3	6.0
Oregon	12.1	7.2	7.6	7.1
Pennsylvania	13.4	8.3	12.3	11.5
Rhode Island	15.9	10.7	9.1	12.2
South Carolina	8.0	5.3	3.7	7.5
South Dakota	6.7	3.9	3.8	3.5
Tennessee	12.2	7.4	6.3	8.0
Texas	14.3	5.7	9.2	12.3
Utah	8.1	2.5	7.8	5.7
Vermont	13.2	6.7	13.7	5.4
Virginia	12.4	6.8	6.4	6.7
Washington	20.3	6.3	10.4	6.9
West Virginia	9.6	7.3	6.6	6.5
Wisconsin	16.0	6.3	11.4	9.1
Wyoming	8.2	3.4	4.7	2.4
District of Columbia	4.1	8.2	11.3	9.5
Total	4.3	9.0	10.8	10.4

Source: Statistics of Income.

[48] For a person who leaves at least 50 percent of his property at death to his wife, the marital deduction in effect increases the exemption to $120,000; consequently, no credit is allowed for State taxes on estates of such persons valued at less than $200,000.

This variation is attributable mainly to differences in the size of estates. Under the present formula, the credit as a percentage of tentative Federal tax liability increases with the size of estate up to a maximum of about 20 percent for estates taxable at the maximum rate. In effect, States either derive a higher proportion of the tax on larger than on smaller estates or the net additional burden of the State tax is greater in the case of small than large estates.

Integration and simplification of the Federal dual estate tax structure are essential to an improved program of Federal-State coordination. The Federal credit, which is geared to the 1926 rates, has only partially succeeded in securing the desired uniformity in the level of State death taxes and has not enabled the States to maximize their revenue from this source.

Successful Federal-State coordination could be attained by strengthening the crediting device. This might be accomplished in one of two ways: (*a*) The credit might be retained as a uniform percentage but applied against the entire Federal liability instead of only a portion of it as under present law; or (*b*) a relatively larger credit might be allowed on smaller than on larger estates. A revision of the credit along these lines would be of greatest benefit to those five States with low average credits (see table 13), but it would allow an increase in death taxes in all States, depending on the total yield of the Federal tax.

The first approach would enable States to derive revenue from estates under $100,000 without increasing the total Federal-State burden of death taxes. It would allow States to share automatically in further Federal rate increases. This type of credit would also be a strong inducement to greater uniformity among State tax laws. At present law rates and exemptions it is estimated that if the credit were left at a maximum of 20 percent of the total Federal tax, the total credits claimed for State taxes would be nearly doubled after States brought their statutes into accord. The loss to the Federal Government of some $75 million per year would be equivalent on the average to about a 3-percentage point increase in tax rates.

An alternative method would allow as a credit, for example, 50 percent of the Federal tax on estates of less than $100,000 and 20 percent on larger estates. The revenue effect of this change would not be substantially greater than that under the flat percentage method, assuming that the 20-percent credit for large estates is applied in both cases, since estates below $100,000 produce less than 2 percent of Federal-estate-tax revenue. Reduction of both Federal and State exemptions would result in a significant redistribution of the credit among States as well as in an increase in the total credit. The higher credit on small estates would permit the States in which property transfers are small to increase their taxes by placing an additional burden on their residents. The formula now in use generally favors those States with a high concentration of relatively large property transfers.

The revenue available to the States is affected also by the tax treatment of gifts. The preferential Federal tax treatment of gifts encourages the distribution of estates during the lifetime of the owners, which reduces the amount of property subject to death taxes. Better integration of Federal estate and gift taxes, together with a credit for gift taxes paid to the States, would strengthen this source of revenue appreciably.

D. SURRENDER OF DEATH TAXES TO THE STATES

Periodically, the proposal is made that the Federal Government surrender the death taxes to the States.[49] Several reasons are advanced: The transfer of property at death is a privilege controlled by State law, States provide for the administration of estates, the States developed this field first, and they are most in need of the revenue.

Provisions under State laws governing the transfer of property at death presumably were developed to implement the right of inheritance under our system of private property and would appear to provide no particular basis for reserving the taxation of property transfers for the States. A similar conclusion is indicated by the fact that private wealth does not originate within the domain of an individual State but is derived for the most part through interstate commerce under the jurisdiction of the Federal Government. Limitation of the transfer tax to the State of the domicile of the decedent or the situs of the property would inevitably discriminate against other States which also have contributed to the accumulation of the property. This would result in an inequitable sharing of the revenues.

From the viewpoint of the States, the compelling argument against reserving the tax for their use is the loss of State revenue that would probably result from a return to competitive reduction of State tax rates. Several State death tax laws as well as many supplementary tax provisions are made contingent upon the continuation of the Federal credit. It will be recalled that State death tax revenues doubled between 1924 and 1930 under the operation of the Federal credit.

The taxation of wealth in accordance with ability to pay requires a comprehensive graduated Federal tax on all transferred property regardless of its geographical location. In the absence of a Federal tax, progressive State tax rates would tend to be nullified by the division of property among the States. Liberalization of the Federal credit, unlike abandonment of death taxes to the States, would protect State revenues and assure their fair apportionment among the States.

E. BROADENING THE TAX BASE

To make the transfer taxes more productive, it would be necessary to improve the structure of the Federal taxes as well as to revise the exemptions and rates. Structural improvements are needed especially to prevent the disposition of property through life estates to avoid transfer taxes for one or more generations and also to prevent estate tax avoidance through gifts. By making use of gifts and life estates, large amounts of property can be transferred during several generations with relatively little tax. This is inequitable to those who, either because of business circumstances or early death, cannot take advantage of these methods of transferring property. These avenues of avoidance account in part for the fact that the transfer taxes are now contributing only about 1.5 percent of Federal tax revenue and relatively little more to State revenues.

Lowered Federal exemptions would enable the extension of the credit to small estates, which would facilitate further development of this area by States without fear of lower rates in competing States.

[49] "The Coordination of Federal, State, and Local Taxation," Report of the Joint Committee of the American Bar Association, the National Tax Association and the National Association of Tax Administrators, 1947.

A strengthened estate tax structure would increase State tax revenues from this source without unduly curtailing Federal revenues.

F. ADMINISTRATION AND COMPLIANCE

The States are permitted to examine Federal estate and gift tax returns but administrative coordination in this field between the Federal Government and the States is still in its infancy. Although agreements with foreign governments for exchange of information have proved valuable in this respect, there is no formal arrangement for similar exchange with the States. A number of States have taken advantage of the opportunity to examine individual tax returns by direct requests for documents relating to individual cases. The absence of more administrative cooperation may be partly due to the fact that States ordinarily share automatically in any increases in tax resulting from audits at the Federal level if the Federal credit has not been exhausted.

Those States having an estate tax based on a Federal levy or a lower rate inheritance tax with a differential estate tax can rely heavily on the Federal Government for assistance in administration and enforcement. In such cases, the States have no valuation or other investigative problems. Executors required to pay deficiencies on Federal estate tax returns independently transmit to the States the results of the Federal audit, since any additional State tax comes entirely out of the additional Federal tax and the executor must obtain certification from the State authorities that the State tax has been paid before the Federal credit is allowed.

The States are reported to rely heavily on the valuation of property determined by the Bureau of Internal Revenue. Most States require the executor to attach to the State return a copy of the Federal return, and some States obtain copies of the valuation sheets prepared during audits at the Federal level. The Federal Government, in turn, relies on appraisals in States where these have proved to be realistic.

The great diversity of transfer taxes now makes it difficult to prepare an effective program of Federal-State cooperation in the administration of these taxes. Variations in State laws with respect to the definition of taxable transfers also limit administrative cooperation. Differences in treatment of jointly held property, insurance, and gifts in contemplation of death, for example, increase compliance problems and impede enforcement.

As in the case of income taxes, costly administration of death taxes can be avoided if the Federal and State taxes become more nearly uniform. Greater uniformity might be achieved through the Federal credit. If, as suggested above, the Federal credit were increased as well as modernized, the increase in the strength of the State transfer taxes might be expected to facilitate the type of comity conducive to administrative cooperation between the States and the Federal Government.

G. STATE TAX JURISDICTION

The question of State jurisdiction over property transfers presents a serious problem of coordination among the States themselves. Multiple death taxation seems to be based upon the theory that any State which affords some protection to the decedent's rights or which contributes in any way to making the transfer of such rights effective is entitled to some death duties.

The taxing power of the State in which the decedent had his domicile at the date of death extends to all property of the decedent except real and tangible personal property situated outside such State. There has been little controversy over the exclusive power to tax transfers of real property by the State in which the property is situated. The same principle governs jurisdiction to tax tangible personal property.[50]

The main area of dispute is in the field of jurisdiction over intangible personal property. Such property includes stocks, bonds, accounts receivable, good will, notes, and mortgages.[51]

The Supreme Court has recognized the principle that transfers of intangible personal property may be taxed both in the State of the decedent's domicile and in the State of the "business situs" of the intangible property.[52] The application of this principle led the Supreme Court to hold that Utah could tax the transfer of stock of a Utah corporation even if the transferor was domiciled in another State.[53]

Taxation of transfers of intangible personal property by more than one State occurs not only because of competing jurisdictional bases, i. e., the decedent's domicile and the situs of the property involved, but also because more than one State may claim jurisdiction under the conflicting definitions of the term domicile or conflicting interpretations of the facts in each case. The problem of double taxation of estates containing intangible personal property due to dual claims of domicile is particularly difficult. The Supreme Court has refused to assume jurisdiction in such cases unless the estate is insufficient to satisfy both the Federal tax and the taxes imposed by the States.[54]

The tasks of interstate cooperation to avoid double taxation of estates, therefore, fall into two categories: (*a*) cooperation to avoid double taxation resulting from competing jurisdictional bases of situs and domicile and (*b*) cooperation to avoid double taxation resulting from more than one State claiming a decedent's domicile at death.

With regard to the conflict between situs and domicile, the economic interests of the States should provide an incentive to the elimination of double taxation. Nonresidents are free, within practical limits, to withdraw deposits from a State levying a death tax based upon the situs of intangibles, and otherwise to arrange their affairs with the view of avoiding States which would subject them to double taxation. Probably for this reason, 13 States do not tax intangible personal property of nonresidents;[55] 6 States and the District of Columbia exempt intangibles of nonresidents, with the exception of some special situations;[56] and 19 States and the 2 Territories have enacted laws granting immunity from taxation of intangible personal property to

[50] *Frick* v. *Pennsylvania* (1925), 268 U. S. 473.

[51] Mortgages are regarded as intangible personal property, if according to the law of the State in which the mortgaged property is situated, the mortgage is considered a mere chose in action constituting a lien on the land rather than an interest in the land.

[52] *Curry et al.* v. *McCanless* (1939), 307 U. S. 357, and *Graves et al.* v. *Schmidlapp* (1942), 315 U. S. 657.

[53] *State Tax Commission of Utah* v. *Aldrich* (1942), 316 U. S. 174.

[54] *Texas* v. *New York et al.* (1937), 300 U. S. 642.

[55] Arizona, Connecticut, Delaware, Louisiana, Maine, Minnesota, Missouri, New Jersey, New York Rhode Island, Tennessee, Vermont, and Virginia.

[56] Four of these States—California, Florida, Massachusetts, and Washington—tax only intangible personal property of nonresidents of the United States, while Illinois exempts intangibles of nonresidents if they are subject to tax in the State of the decedent's domicile. The District of Columbia and North Carolina exempt intangible property of nonresidents unless it is used in connection with some business carried on in the State.

nonresidents of States in which reciprocity is insured.[57] The other States have rules which include reciprocity in some instances and complete absence of reciprocity in other cases.[58]

Interstate cooperation in this field, in many instances, goes beyond the simple prevention of double taxation. Twenty-seven States have enacted reciprocal legislation to enforce domiciliary taxes due on intangibles situated in States other than those of decedent's domicile;[59] and the laws of 17 States provide for the deductibility of all or part of inheritance taxes collected in other State jurisdictions in the computation of their inheritance taxes.[60]

Interstate cooperation in the avoidance of double taxation resulting from more than one State claiming a decedent's domicile at death, however, is much less complete. Only 12 States provide for a method of arbitration in case their right to tax the estate of a person is challenged by another State in a domiciliary dispute.[61] Inequitable double taxation because of domiciliary disputes is also eliminated by the method of a compromise between rival States as to an apportionment of the death taxes due. The 12 States mentioned above as willing to submit to arbitration have also enacted legislation with the purpose of compromising dual claims to death taxes with States which are not willing to arbitrate the basic issues but which have enacted legislation opening the way to compromise. Eight other States and the District of Columbia have compromise legislation.[62]

In view of the successful cooperation in the field of conflicts between situs and domicile, the number of States submitting to arbitration or compromise in the case of domiciliary conflicts may be expected to increase. However, even with the inclusion of the States willing to compromise, less than half the total number of States cooperate in the settlement of disputes involving dual domiciliary claims, and steps to assure the complete elimination of double taxation in this field appear necessary.

H. COORDINATION PROSPECTS

From a national viewpoint, the division of revenue from death taxes between the States and the Federal Government is of subordinate importance to increasing the role of these taxes in the combined United States tax system. Resolution of the coordination issue be-

[57] Alaska, Colorado, Hawaii, Idaho, Indiana, Maryland, Michigan, Mississippi, Nebraska, New Hampshire, New Mexico, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Texas, Utah, West Virginia, Wisconsin, and Wyoming.

[58] Arkansas and Montana grant reciprocal exemption to nonresidents except nonresidents of the United States. Iowa and Kansas grant reciprocal exemption to nonresidents except nonresidents of the United States, provided the intangibles are taxed in the States of decedent's domicile. Alabama limits its reciprocal exemption to intangibles not used in carrying on a business in Alabama but taxes trust property not taxed elsewhere.

Two States, Ohio and Kentucky, have adopted a more complicated set of rules. Ohio taxes intangible property of nonresidents only if employed in carrying out a business within the State; in addition, reciprocity rules are assured to nonresidents whose State of domicile does not tax intangibles of Ohio residents. Kentucky taxes intangible property of nonresidents if such property has a business situs in the State, with the exception of stock of domestic corporations and with the exception of property held in trust if it is taxed in the State of domicile of the decedent, provided that such State grants reciprocity to Kentucky residents.

Georgia has no provision for reciprocity exemptions with respect to intangibles, and the State of Nevada has no death tax law.

[59] Alabama, Arkansas, California, Colorado, Connecticut, Delaware, Kentucky, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, Tennessee, Virginia, Washington, and Wisconsin.

[60] Idaho, Indiana, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, New Jersey, North Carolina, North Dakota, Ohio, Oklahoma, Rhode Island, South Carolina, Tennessee, Vermont, and Virginia.

[61] California, Connecticut, Delaware, Maine, Maryland, Massachusetts, Minnesota, New Hampshire, Pennsylvania, Tennessee, Vermont, and Virginia.

[62] Illinois, Indiana, Mississippi, Montana, New Jersey, New York, Oklahoma, and Utah.

27006—53——5

tween the Federal Government and the States has been impeded by the fact that the over-all strength of the tax has declined rather than improved.

An initial step toward the improvement of the Federal-State death tax system would be simplification of the Federal dual rate structure by the substitution of a single set of rates. The basic estate tax now serves no purpose except to determine the credit allowed for State death taxes and to limit that credit regardless of how much additional revenue the Federal Government draws from this source.

The history of death taxes indicates that State revenues from this source can best be protected by means of a Federal tax credit. Because of its limitation to 80 percent of the Federal tax under the 1926 law, the proportion of State revenues from this source has sharply declined and the objective of uniformity in State taxes has failed to be realized. Many States have enacted supplementary taxes to take full advantage of the Federal credit but few confine their taxes to 80 percent of the 1926 Federal rates. State revenues vary significantly from the amount of the credit both because of lower exemptions and higher rates than those provided in the 1926 Federal law. The present flat percentage formula has the effect of allowing a larger credit for the larger estates whereas the opposite would appear to be desirable; that is, States should be allowed a larger proportion of the revenue from small estates.

The revenue importance of death and gift taxes could be restored by broadening the tax base and increasing rates. Integration of death and gift taxes, lower exemptions, revision of the marital deduction, closing of serious loopholes, and higher rates would contribute to revenues. A more productive Federal estate tax would facilitate Federal-State tax coordination to enlarge State revenue from this source and at the same time would enhance the equity of the total tax system of this country. If buttressed by active cooperation between the Federal Government and the States in tax administration and a concerted effort on the part of the States to resolve their remaining jurisdictional conflicts, this approach could produce an integrated death and gift tax structure.

V. Excise and Sales Taxes

A. SELECTIVE EXCISES

The Federal excise tax system has varied considerably over the years. Prior to World War II, wartime financial needs had several times resulted in expansion of the excise system, but following each war the emergency levies for the most part had been gradually repealed.

Alcoholic beverages and tobacco products are the only sources of excise revenue used continuously since the Civil War. The rates on these products have been revised upward and downward over the years as revenue requirements changed. During prohibition, of course, the revenue from beverages was greatly reduced.

The depression of the 1930's resulted in expansion of Federal excises, many of which were still in effect when World War II brought further extension. In the period following World War II, unlike previous postwar periods, few excise reductions were made. A major exception was the repeal of the automobile use tax in 1946.

The Revenue Act of 1951, through increases in existing excise rates and the imposition of new taxes, has made the rates even higher and the excise system more extensive than during World War II.

Although the present Federal excise structure consists of over 50 excises, the bulk of the revenue comes from a relatively small number of taxes. Collections from the major excises in the fiscal year 1951 are shown in table 14. Distilled spirits, beer, cigarettes, and gasoline produced almost one-half of all excise revenue. These four, together with passenger automobiles, amusements, transportation of property, and local and long-distance communications, accounted for about three-quarters of the total.

TABLE 14.—*Federal excise tax collections, fiscal year 1951*

Tax	Collections	
	Amount (millions)	Percent of total excise collections
Liquor:		
Distilled spirits [1]	$1,810	20.8
Malt beverages [2]	669	7.7
Wines [3]	67	.8
Total liquor	2,547	29.3
Tobacco:		
Cigarettes	1,294	14.9
Cigars	44	.5
Other tobacco	42	.5
Total tobacco	1,380	15.9
Manufacturers' excises:		
Gasoline	569	6.5
Passenger automobiles and motorcycles	653	7.5
Tires and tubes	198	2.3
Trucks and busses	121	1.4
Auto parts and accessories	119	1.4
Radio and television sets, phonographs, etc	128	1.5
Electric, gas, and oil appliances	122	1.4
Other manufacturers' excises	472	5.4
Total manufacturers' excises	2,384	27.4
Retailers' excises:		
Jewelry	210	2.4
Toilet preparations	106	1.2
Luggage	83	1.0
Furs	58	.7
Total retailers' excises	457	5.3
Services:		
Amusements [4]	444	5.1
Transportation of property	381	4.4
Transportation of persons	238	2.7
Telephone, telegraph, etc	355	4.1
Local telephone service	290	3.3
Total services	1,708	19.6
All other excises [5]	228	2.6
Total, all excises	8,704	100.0

[1] Includes excise on domestic and imported distilled spirits, rectification tax, case stamps for distilled spirits bottled in bond, container stamps, floor taxes, and special taxes on rectifiers and dealers.
[2] Includes excise on fermented malt liquors and occupational taxes on brewers and dealers in malt liquors.
[3] Includes excise on domestic and imported wines.
[4] Includes admission taxes, club dues and initiation fees, taxes on bowling alleys, pool tables, and coin-operated devices.
[5] Includes stamp taxes; excises on sugar, transportation of oil by pipeline, leases of safe deposit boxes, adulterated butter, oleomargarine, narcotics, firearms under the National Firearms Act, coconut and processed vegetable oils; and other miscellaneous excises.

NOTE.—Figures are rounded and do not necessarily add to totals.
Source: Treasury Department, Treasury Bulletin, September 1951.

While Federal excise revenues were at an all time high of $8.7 billion in fiscal year 1951, excises accounted for only 17 percent of internal revenue collections as compared with about 30 percent during the latter part of the 1930's. The decrease in the relative importance of excises has resulted from the proportionately greater growth in income tax receipts due to the widened coverage of the personal income tax and the increases in individual and corporate income tax rates.

The use of selective sales or excise taxes by States is largely a development of the last 30 years. The first State gasoline tax was introduced by Oregon in 1919. During the next 10 years, the gasoline tax replaced the property tax (which the States were relinquishing to their subdivisions) as the most important single source of State tax revenue. The first State tobacco tax was imposed by Iowa in 1921, but other States were slow to develop this source of revenue. After the repeal of prohibition, alcoholic beverages were added to the list of State excises. Prior to prohibition, the States had taxed liquors only indirectly through license fees.

In some States, selective excise taxes are now used also by local governments. Some of the newly adopted local excises overlap both the Federal and State selective excises, resulting in three-level and, in some cases, four-level imposition of particular taxes. Few cities, however, obtain a significant portion of their revenues from selective excises.

1. *Tobacco taxes*

The taxation of tobacco products has gradually developed into an example of extreme overlapping. While the Federal Government has taxed tobacco products continuously since the Civil War, State taxation dates from the enactment of the Iowa tax in 1921. By 1931, the number of States taxing tobacco had increased to 14 and by 1941 had reached a total of 29. At present, 41 States and the District of Columbia have tobacco taxes, 10 of which have been enacted since 1946. A number of States increased their rates in the postwar period, and some States which had formerly imposed their taxes as emergency levies made them a permanent part of their tax systems.

In several States, cities (or counties) tax cigarettes. In such cases, tax administration may be three deep. In Florida, however, the locally imposed cigarette taxes are collected by the State.

a. Federal taxes.—The Federal tax on cigarettes was raised to $4 per thousand (8 cents per package) by the Revenue Act of 1951, effective November 1, 1951, after having been $3.50 per thousand since 1942.[63] Manufactured tobacco (chewing tobacco, smoking tobacco, and snuff) has been taxed at 10 cents a pound since November 1, 1951, a reduction of 8 cents a pound from the prior rate which had been in effect since 1919. Cigar tax rates were last changed in 1942. The rates on large cigars range from $2.50 to $20 per thousand, depending upon the intended retail price.

b. State and local taxes.—The principal State excises on tobacco are those on cigarettes. Forty-one States and the District of Columbia tax cigarettes, while only 11 tax cigars and 10 tax some other form of tobacco products. The base of State cigarette taxes is usually expressed in terms of packages of a specified number of cigarettes (table 15). In only three cases is the tax based on retail price. State cigar tax rates, on the other hand, are frequently graduated according to retail price and, with few exceptions, taxes on other forms

[63] The increase automatically expires on April 1, 1954.

of tobacco products use retail price as the base (tables 16 and 17). Although articles subject to special excise taxes are frequently exempt from State general sales taxes, tobacco is subject to both a special excise and a general sales tax in some States.

TABLE 15.—*State cigarette excise taxes, Jan. 1, 1952*

[Per standard package of 20 cigarettes]

1 cent: District of Columbia
  Total, 1.

2 cents:
- Arizona
- Delaware
- Iowa
- Kentucky [1]
- Ohio
- Utah
- Wyoming

  Total, 7.

3 cents:
- Alabama
- Connecticut
- Georgia
- Idaho
- Illinois
- Indiana
- Kansas
- Michigan
- Nebraska
- Nevada
- New Hampshire [2]
- New Jersey
- New York
- Rhode Island
- South Carolina
- South Dakota
- Wisconsin

  Total, 17.

4 cents:
- Maine
- Minnesota
- Mississippi
- Montana
- New Mexico
- Pennsylvania
- Texas
- Vermont
- Washington [3]
- West Virginia

  Total, 10.

5 cents:
- Florida
- Massachusetts
- Oklahoma
- Tennessee

  Total, 4.

6 cents:
- Arkansas
- North Dakota

  Total, 2.

8 cents: Louisiana
  Total 1.

[1] The statutory rate is 1 cent for each 10 cents of the retail price or fraction.
[2] The statutory rate is 15 percent of the retail price.
[3] The statutory rate is 2 cents for each 10 cents of the retail price or fraction.

TABLE 16.—*State excise taxes on cigars, Jan. 1, 1952*

State	Weighing not more than 3 pounds per 1,000 (tax per 1,000)	Weighing more than 3 pounds per 1,000		
		Intended retail price		Tax per 1,000
		Over	Not over	
		Cents	*Cents*	
Alabama	$1.00	----	3⅓	$1.00
		3⅓	5	2.00
		5	8	3.00
		8	10	5.00
		10	20	10.00
		20	----	13.50
Arizona	1.00	----	5	3.33⅓
		5	----	10.00
Delaware	1.00	6	20	10.00
		20	----	20.00
Georgia	1.00	----	3⅓	1.00
		3⅓	5	2.00
		5	8	3.00
		8	10	5.00
		10	20	10.00
		20	----	13.50
Louisiana	1.20	----	5	3.20
		5	8	4.80
		8	15	8.00
		15	20	32.00
		20	----	40.00
Maine	20 percent of retail price			
Mississippi	1 cent for each 5 cents of retail price or fraction			
New Hampshire	15 percent of retail price			
Oklahoma	$1.00	----	3⅓	$5.00
		3⅓	----	10.00
South Carolina	1.00	----	3⅓	3.00
		3⅓	----	10.00
Tennessee	1.00	----	3⅓	1.00
		3⅓	5	2.00
		5	9	3.00
		9	10	5.00
		10	20	10.50
		20	----	13.50

TABLE 17.—*State excise taxes on smoking and chewing tobacco and snuff, Jan. 1, 1952*

State	Smoking tobacco	Chewing tobacco	Snuff
Alabama	Ranges from 1 cent for 1⅛ ounces or less to 7 cents for 3 to 4 ounces, plus 2 cents per ounce or fraction above 4 ounces.	¾ cent per ounce or fraction.	Ranges from ½ cent per ⅝ ounce or less to 1 cent per ounce above 6 ounces.
Arizona	1 cent per ounce or major fraction.	¼ cent per ounce or major fraction.	1 cent per ounce or major fraction.
Louisiana	Ranges from 1 cent per package retailing for 5 cents or less to 4 cents per package retailing for 15 cents, plus 1⅓ cents for each 5 cents or fraction above 15 cents.		
Maine	20 percent of retail price	20 percent of retail price	20 percent of retail price.
Mississippi	1 cent per 5 cents of retail price or fraction.		
New Hampshire	15 percent of retail price	15 percent of retail price	15 percent of retail price.
North Dakota			2 cents per 1¼ ounces or fraction.
Oklahoma	20 percent of factory list price.	20 percent of factory list price.	
South Carolina	1 cent per 5 cents of retail price or fraction.	1 cent per 3 ounces or fraction.	1 cent per 3 ounces or fraction.
Tennessee	5 percent of retail price	5 percent of retail price	5 percent of retail price.

In conjunction with their tobacco taxes, most States require the annual licensing of tobacco distributors, wholesalers, and retailers. Ordinarily these fees are nominal in amount, imposed as aids to tax administration.

State cigarette tax rates range from 1 cent per standard package of 20 in the District of Columbia to 8 cents in Louisiana. The most common rate is 3 cents per package (in 17 States).

Local cigarette taxes are imposed in eight States, with Alabama, Florida, and Missouri leading in the number of municipalities which levy such taxes. In 1949, Florida authorized municipalities to levy a cigarette tax not to exceed the State rate of 5 cents per package and provided for a credit against the State tax. Under this authority, 269 cities and 2 counties have levied a 5-cent tax which is collected by the State.[64] Wyoming, in 1951, supplanted the 2-cent city cigarette tax, formerly levied in about 10 cities, by a State tax of the same rate. The State collects the tax, withholds 2 percent of the revenue for administrative costs, and returns the balance to the cities and counties. New Mexico has authorized municipalities to impose a cigarette tax of 1 cent per package in addition to the State tax of 4 cents per package. It is not known whether any city has taken advantage of this authorization.

Municipal cigarette tax rates range from 1 cent to 5 cents per package (table 18). As a result of the imposition of State and local taxes in addition to the Federal tax, the total tax varies considerably throughout the United States. For example, the total tax is 9 cents in the District of Columbia, 14 cents in North Dakota, and 16 cents in Louisiana. The combined State and Federal rate in Louisiana is higher than any combination of Federal, State, and local rates.

[64] International City Managers' Association, Municipal Year Book, 1951, p. 194.

TABLE 18.—*Local cigarette excise taxes,*[1] *Jan. 1, 1952*

[Per standard package of 20 cigarettes]

State	State tax rate	1 cent	2 cents	3 cents	5 cents
	Cents				
Alabama [2]	3	Russellville Selma Sheffield Tuscumbia	Abbeville Andalusia. Attala. Decatur. Fort Payne. Florence. Gadsden. Hartselle. Montgomery. Opelika. Phenix City. Piedmont. Prattville. Tuscaloosa. Mobile County. Jefferson County.[3]	Anniston.	
Colorado		Aurora Grand Junction Pueblo.	Denver. Trinidad.		
Florida	[4] 5				All cities.[4]
Maryland			Baltimore.		
Missouri		Mexico Richmond Springs Sedalia	Columbia. Hannibal. Jefferson City. Kansas City. Moberly. St. Charles. St. Joseph. St. Louis. Springfield.		
Nebraska	3		Omaha.		
New Jersey	3		Atlantic City.		
New Mexico	4	(5)			
Virginia			Norfolk. Roanoke. Hopewell.		
Wymong	[6] 2				

[1] Data are obtained from several sources (indicated below) and are necessarily incomplete. Only cities about which authoritative information could be obtained are listed.

[2] In general, the rate in the police jurisdiction is one-half the rate in the city. In Anniston, Gadsden, Phenix, and Tuscumbia, however, the rate in the police jurisdiction is equal to the city rate.

[3] Jefferson County, in which Birmingham and Bessemer are located, collects a cigarette tax of 2 cents per package, deducts 3 percent of the revenues for administrative costs, transmits 75 percent of the remainder to localities, and retains the balance.

[4] Florida in 1949 authorized municipalities to levy cigarette taxes at a rate not exceeding the State rate of 5 cents and provided for a credit against the State tax. All cities (269) and 2 counties (Wakulla and Liberty) have levied a 5 cent tax which is collected by the State and returned to the cities or counties.

[5] Effective July 1, 1951, municipalities are authorized to impose a cigarette tax of 1 cent per package in addition to the State tax. No information is available as to the number of cities, if any, which have imposed such a tax.

[6] Effective July 1, 1951, a State cigarette tax of 2 cents per package is imposed, supplanting the former 2 cents tax imposed by about 10 Wyoming cities. The tax is collected by the State, 2 percent of the revenues are withheld for administrative costs, and the balance returned to the cities and counties.

Sources: Commerce Clearing House, State Tax Reporter; International City Managers' Association, Municipal Year Book, 1951; and Municipal Finance Officers Association, Municipal Non-Property Taxes, 1951 supplement to Where Cities Get Their Money.

c. Revenues.—Federal tobacco tax collections in fiscal year 1951 amounted to about $1,380 million or 3.1 percent of internal revenue collections (table 1). Among the excises, they are second only to liquor taxes as revenue producers, and in 1951 accounted for 16 percent of total excise tax collections. Tobacco taxes ranked seventh as State revenue producers in fiscal year 1951 but are of increasing importance in State revenue systems. State collections in 1951 were $430 million compared with $107 million in 1941 and $11 million in 1931.

d. Administrative problems.—From an administrative viewpoint, tobacco taxes are among the most satisfactory Federal excises. Costs of collection are low, enforcement problems are at a minimum, and application of the law is well understood by taxpayers. Much of the efficiency of Federal administration is attributable to collection at the manufacturers' level which results in a small number of taxpayers. There are only about 50 cigarette factories in operation. Federal administration is also aided by extensive cross checks of stamp purchases through the detailed records manufacturers are required to maintain.

Administration of State tobacco taxes is more difficult and costly primarily because, unlike the Federal tax, they are collected from wholesalers and, in the case of retailers' out-of-State purchases, from retailers.[65] In the case of out-of-State purchases by consumers, collection can be made only through costly and cumbersome use taxes.

The administration of tobacco taxes at the State level has been handicapped because interstate parcel-post shipments provide a means of tax evasion. The National Tobacco Tax Association, an organization of tobacco tax administrators, has been engaged for some years in an effort to evolve methods of meeting this form of evasion. Through exchange of information on interstate shipments, enactment of use taxes, and cooperation of tobacco manufacturers and wholesalers considerable progress was made in handling this problem. Florida, for example, required all tobacco dealers to furnish the State administrator of tobacco taxes the names and addresses of all persons to whom they shipped cigarettes, both in and out of the State. This list was furnished on a reciprocal basis to other States. The usefulness of such information to another State depended upon the form of its tax and the adequacy of its enforcement personnel. If the State had a use tax, it could collect the tobacco tax from the consumer provided it had enough inspectors and collectors. Some State administrators had gentlemen's agreements with larger manufacturers who undertook not to make shipments to individual consumers within the State but shipped only to licensed wholesalers and retailers. Some States enacted laws making possession of a certain number of unstamped cigarettes by any other than a registered dealer presumptive evidence that they are held for the purpose of evading taxes.[66]

The States by their own efforts, however, were not successful in preventing tax evasion through interstate parcel-post shipments and sought the assistance of the Federal Government in closing this loophole. In 1949, Federal legislation was enacted (the so-called Jenkins Act) providing that persons who sell cigarettes in interstate commerce and ship them to other than a licensed distributor in a State taxing the sale or use of cigarettes are required to forward to the tobacco tax administrator of the buyer's State monthly information regarding such shipments.[67] Violation of this provision is punishable by a fine of not more than $1,000 or imprisonment for not more than 6 months, or both. The provision, which has been declared constitutional by the United States Supreme Court,[68] is enforced by the Department of

[65] An important factor in State administrative costs is the discounts on tax stamps given to tobacco merchants or wholesalers. Discounts ranging from 5 to 10 percent are most common.

[66] In New York, for example, the number is 1,000 cigarettes and in Alabama, 30 packages of cigarettes.

[67] Public Law 363, 81st Cong., 1st sess., approved October 19, 1949.

[68] *Consumer Mail Order Association* v. *McGrath*, 94 Fed. Supp. 705, affirmed, 340 U. S. 925.

Justice. Enforcement by the Treasury Department was considered but abandoned because its administrative machinery is geared to the manufacturers' level and is not adaptable to the identification of interstate shipments of tobacco which in most cases are made by wholesalers and retailers. As a result of the Jenkins Act, many firms previously engaged in interstate cigarette shipments have discontinued operation. However, some firms are reportedly continuing to ship cigarettes across State borders without complying with the provisions of the Jenkins Act, claiming that they do not ship in interstate commerce but merely act as agents of the buyer.

e. Coordination proposals.—The coordination of Federal-State tobacco taxation has been the subject of lengthy discussions, particularly among State officials. In 1934, the Graves-Edmonds plan, which offered a four-point program for coordinating Federal-State taxes, proposed that Congress provide for distribution of 1 cent of the Federal 6-cent cigarette tax to the States in proportion to population, provided that the States withdrew from the tobacco tax field.[69] In January 1933, Chairman Doughton, of the Committee on Way and Means, had introduced a resolution calling for the sharing of one-sixth of the Federal cigarette tax collections with the States along the lines of the Graves-Edmonds plan.

In 1942, the report of the Committee on Intergovernmental Fiscal Relations recommended that the Federal tax on cigarettes be increased by 2 cents per standard package and that the share of Federal revenues represented by this portion of the tax be distributed, on the basis of population, to States withdrawing from the field, with urban areas given a weight of 150 percent.[70]

Since the formulation of this latter recommendation, State taxation of tobacco has become more widespread and varied and the problems of coordination more difficult. In 1942, State sharing in Federal revenues in an amount corresponding to a 2-cent cigarette tax would have left most of the States at least as well off as they were on the basis of their own imposed tax. That situation no longer prevails since many States have taxes in excess of 2 cents. The wide variations in the level of State rates adds to the complexity of the problem.

Another approach to coordination would leave the States free to set the level of tax rates but would attempt to strengthen their administration by providing for the collection of State cigarette taxes from manufacturers rather than wholesalers or retailers. Under this proposal, manufacturers would either affix a separate State stamp at the same time they affixed the Federal stamp or the Federal stamp would be over-printed to indicate payment of State tax. Conceivably, States with the same tax rates could agree on the use of the same stamp to minimize the work of manufacturers.

Either of the above methods would require a certain amount of forecasting on the part of manufacturers as to the distribution of their sales by States. The use of a separate State tax stamp would not interfere with the Federal collection system but the overprint system would complicate Federal administration considerably if the overprints were made by the Federal Government. A greater variety of stamps would have to be printed with consequent increases in printing costs. Collectors of internal revenue would have to keep a

[69] F. S. Edmonds was a member of the Pennsylvania State Senate and Mark Graves was president of the New York State Tax Commission.

[70] Federal, State, and Local Government Fiscal Relations, S. Doc. No. 69, 78th Cong., 1st sess., 1943, p. 506

wider assortment of stamps in inventory and would have to set up separate accounts to handle State funds. A further problem would arise with respect to refunds. Under certain conditions, manufacturers are entitled to refunds for Federal stamps. Differences between the Federal and State statutes under which redemptions of stamps or refunds could be made would create complications. Even if the States followed Federal practice with respect to refunds, the Federal Government would be further involved in accounting for State funds.

2. Liquor taxes

Overlapping taxation of alcoholic beverages extends to all three levels of government. It takes the form of specific excises levied on the three principal types of alcoholic beverages, distilled spirits, wine, and beer, as well as occupational license taxes imposed on the privilege of engaging in the various branches of the alcoholic beverage business.

The Federal taxes on distilled spirits and beer have been in effect since the Civil War. Wine has been taxed continuously by the Federal Government since 1914.

Prior to prohibition, the States had derived revenue from alcoholic beverages by means of license fees. After repeal of prohibition, the States rapidly imposed excise taxes or set up monopoly distribution systems. Most cities and some counties derive revenues from liquor license fees and an increasing number of cities and counties are imposing liqour excises.

a. Federal taxes.—Federal rates on all types of alcoholic beverages were increased by the Revenue Act of 1951, effective November 1, 1951.[71] The rate on distilled spirits which had been $9 per proof gallon since 1944 was increased to $10.50 per proof gallon. The new rate for beer is $9 per barrel compared with the previous rate of $8. Light wines are taxed at 17 cents per gallon and fortified wines at 67 cents, compared with previous rates of 15 and 60 cents, respectively. The rate of $2.25 per gallon on fortified wine containing over 21 percent and not over 24 percent alcohol is not of much practical significance since little of the output falls in this category. On sparkling wines, the new rates are 12 or 17 cents per half pint or fraction thereof, depending on whether the wine is artificially or naturally carbonated, the equivalents of about $2.40 to $3.40 per gallon.[72] The Federal Government also levies annual occupational taxes on retail and wholesale dealers in alcoholic beverages, brewers, and rectifiers.

b. State and local taxes.—All States which permit sales of alcoholic beverages impose excises on such sales or distribute these beverages through State monopolies. State taxes on distilled spirits are low, compared with the Federal rate of $10.50 per gallon (table 19). In the 30 license States, the tax ranges from less than $1 per gallon to $3 per gallon. Less than half of these States tax distilled spirits at rates in excess of $1.50 per gallon, and less than one-third have rates ranging as high as $2 to $3 per gallon.

[71] These increases automatically expire April 1, 1954.

[72] The estimated tax per gallon is not an exact multiple of the tax per half pint because a fifth, the common unit of packaging, contains 3.2 half pints which are taxed at the equivalent of 4 half pints.

TABLE 19.—*State excise taxes on distilled spirits,*[1] *Jan. 1, 1952*

[Per gallon]

50 cents to $1:
- California
- District of Columbia
- Missouri
- Nevada
- South Dakota
- Total, 5.

$1 to $1.50:
- Arizona
- Connecticut
- Delaware
- Georgia [4]
- Illinois
- Kansas

$1 to $1.50—Continued
- Kentucky
- Maryland
- Nebraska
- New Mexico
- Rhode Island
- Texas
- Total, 12.

$1.50 to $2:
- Colorado
- Louisiana
- New Jersey
- New York
- Total, 4.

$2 to $3:
- Arkansas [2]
- Florida [3]
- Indiana
- Massachusetts [5]
- Minnesota
- North Dakota [6]
- South Carolina
- Tennessee
- Wisconsin
- Total, 9.

[1] Mississippi and Oklahoma prohibit the sale of liquors of alcoholic content of more than 4 percent and 3.7 percent, respectively. Sixteen States have liquor monopoly systems (Alabama, Idaho, Iowa, Maine, Michigan, Montana, New Hampshire, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming). Some of the monopoly States impose taxes generally expressed in terms of a percentage of retail price. Vermont, however, imposes a tax of $3.60 per gallon and thus falls in the group of States with highest taxes. North Carolina has county-operated stores in counties which vote in favor of their operation and the State imposes a tax of 8½ percent of retail price.

[2] In addition, a special alcoholic beverage excise tax of 3 percent is levied upon all receipts from sale of liquors, cordials, liqueurs, and specialties.

[3] Includes the tax of $1.20, plus two additional taxes of 72 cents and 25 cents. The tax on beverages containing more than 48-percent alcohol by weight is $4.34, including the tax of $2.40 plus 2 additional taxes of $1.44 and 50 cents.

[4] The tax on distilled spirits manufactured within the State is 50 cents per gallon.

[5] Includes permanent tax of $1.50, plus an additional tax of 50 cents beginning August 1, 1945, and a temporary additional tax of 25 cents for the period July 1, 1949, through June 30, 1953.

[6] Includes permanent tax of 60 cents plus an additional tax of 80 cents, effective until July 1, 1961, plus the wholesale liquor transactions tax of $1.10.

Sixteen States have monopoly systems and depend for revenue largely on profits from liquor sales rather than on taxes. Nine of the monopoly States impose no tax and the remainder impose taxes, generally a specified percentage of the retail price. North Carolina which has county-operated stores, levies a State tax of 8½ percent of retail price. Two States (Mississippi and Oklahoma) prohibit the sale of liquors other than those of low alcoholic content.

All 48 States and the District of Columbia tax beer. Rates range from less than $1 per barrel in several States to $13 per barrel in Mississippi. However, most State rates are far below the $9-per-barrel Federal rate. The beer tax ranges from $1 to $1.50 per barrel in about one-third of the States and is less than $3 a barrel in 60 percent of the States (table 20).

TABLE 20.—*State excise taxes on beer, Jan. 1, 1952*

[Per 31-gallon barrel]

50 cents to $1:	$1.50 to $2:	$4 to $5:
California	Kentucky	Georgia
Colorado	New Mexico	Maine
Maryland	Total, 2.	North Dakota [1]
Missouri	$2 to $3:	Utah
Nevada	Arizona	Vermont
Wyoming	Indiana	Total, 5.
Total, 6.	Iowa	$5 to $8:
$1 to $1.50:	Massachusetts	Arkansas
Connecticut	Minnesota	Florida
Delaware	Ohio	North Carolina
District of Columbia	Pennsylvania	West Virginia
Illinois	South Dakota	Total, 4.
Michigan	Total, 8.	$9 to $10: South Carolina
Montana	$3 to $4:	Total, 1.
Nebraska	Alabama	$10:
New Jersey	Idaho	Louisiana
New York	Kansas	Oklahoma [2]
Oregon	New Hampshire	Total, 2.
Rhode Island	Tennessee	$13: Mississippi
Texas	Virginia	Total, 1.
Washington	Total, 6.	
Wisconsin		
Total, 14.		

[1] Includes basic tax of $2.48 per barrel and a temporary additional tax of $2.48 per barrel for the period Apr 1, 1949, to July 1, 1961.

[2] Includes basic tax of $7 per barrel and a temporary additional tax of $3 per barrel, effective through June 30, 1953.

Because of the variations in methods of classifying wines under State taxes, it is difficult to compare State and Federal wine taxes. The Federal tax classifies still wines into three categories: (1) Not more than 14 percent alcohol, (2) over 14 percent but not over 21 percent alcohol, and (3) over 21 percent but not over 24 percent alcohol. A separate classification is provided for artificially carbonated wine and sparkling wine. Some States make no distinction between light and fortified wines; where distinctions are made, the classes do not always correspond to those of the Federal tax. With respect to light wines (defined as containing not more than 14 percent alcohol), 13 States impose rates below the Federal rate of 17 cents. With respect to fortified wines (containing over 14 percent alcohol), only five States impose rates as high as the Federal rate of 67 cents (table 21).

TABLE 21.—*State excise taxes on wines,*[1] *Jan. 1, 1952*

LIGHT WINES

[Per gallon]

1 cent to 10 cents:
- California
- Missouri
- Total, 2.

10 to 15 cents:
- Colorado
- Connecticut
- Louisiana
- New Jersey
- New York
- Texas
- Wisconsin
- Total, 7.

15 to 20 cents:
- Illinois
- Kansas
- Nevada

15 to 20 cents—con.
- South Dakota
- Total, 4.

20 to 30 cents:
- Delaware
- Kentucky
- Maryland
- Minnesota
- Nebraska
- New Mexico
- Rhode Island
- Total, 7.

30 to 40 cents:
- Arizona
- Massachusetts [2]
- Total, 2.

40 to 60 cents:
- Georgia [3]
- Indiana
- Mississippi
- North Dakota [4]
- Total, 4.

60 cents and over:
- Arkansas [5]
- Florida [6]
- North Carolina
- South Carolina [7]
- Tennessee
- Total, 5.

FORTIFIED WINES

1 cent to 10 cents: California
- Total, 1.

10 to 20 cents:
- District of Columbia
- Missouri
- New Jersey
- New York
- Total, 4.

20 to 30 cents:
- Colorado
- Connecticut
- Delaware
- Kentucky
- Louisiana

20 to 30 cents—con.
- Maryland
- Nevada
- New Mexico
- Rhode Island
- Texas
- Wisconsin
- Total, 11.

30 to 40 cents:
- Arizona
- South Dakota
- Total, 2.

40 to 60 cents:
- Illinois
- Indiana

40 to 60 cents—con.
- Kansas
- Massachusetts [8]
- Nebraska
- North Carolina
- Total, 6.

60 cents and over:
- Arkansas [5]
- Florida
- Georgia [9]
- Minnesota
- North Dakota [10]
- South Carolina [7]
- Tennessee
- Total, 7.

[1] Classifications of wines under State taxes vary widely. For purposes of this table, wines containing not more than 14 percent alcohol are classified as light wines and those containing over 14 percent are classified as fortified wines. Mississippi and Oklahoma prohibit the sale of liquors of alcoholic content above 4 percent and 3.2 percent, respectively. Sixteen States have liquor monopoly systems (Alabama, Idaho, Iowa, Maine, Michigan, Montana, New Hampshire, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia and Wyoming). Several of the monopoly States impose taxes on wines. North Carolina has county-operated stores in counties which vote in favor of their operation and the State imposes t tax of 40 cents per gallon on fortified wine sold in these stores.

[2] Includes permanent excise of 10 cents plus a temporary tax of 20 cents effective until June 30, 1953.

[3] Domestic wine containing not more than 14 percent alcohol is taxed at the rate of 5 cents per gallon.

[4] Includes permanent excise of 10 cents, plus a wholesale transactions tax of 20 cents, and a temporary additional tax of 20 cents, effective until July 1, 1961.

[5] Effective March 19, 1951, a special alcoholic beverage excise tax of 3 percent is levied upon all retail receipts from sales of still and sparkling wines.

[6] Unfortified wines manufactured in Florida from Florida-grown products are taxed at the rate of 20 cents per gallon.

[7] Wines produced by South Carolina wineries from South Carolina fruits are taxed at half the regular rate.

[8] Includes permanent excise of 10 cents plus a temporary tax of 45 cents, effective until June 30, 1953.

[9] Domestic wine containing more than 14 percent alcohol is taxed at 50 cents per gallon.

[10] Includes permanent excise of 20 cents, plus a wholesale transactions tax of 20 cents, plus a temporary additional tax of 20 cents, effective until July 1, 1961.

Twenty-one of the thirty-one States which impose general sales taxes include within the base of this tax the sale of some type of alcoholic beverage. In many cases, the general sales tax is imposed in addition to the special State excise.

License fees are levied by State or local governments and not infrequently by both. The largest State license fees are required of distillers and brewers and usually range between $500 and $2,500 each, although a few States provide for much higher fees, as for example, the $7,500 license for class A distillers in New York. Smaller fees are required of wholesalers, retailers, restaurants, hotels, and miscellaneous dispensers. These licenses, while intended to be regulatory in character, are not insignificant sources of revenue; in fiscal year 1951 they produced $77 million at the State level.

Municipalities in at least five States impose specific excises on the sale of some form of alcoholic beverages.[73] The taxes are frequently limited to wine and beer. Some cities, for example, Atlantic City and New Orleans, impose excises on sales of all types of alcoholic beverages. The general sales taxes imposed by New Orleans and by local governments in California and New York generally apply to alcoholic beverages.[74]

At least six States (Maryland, Minnesota, North Carolina, Oregon, South Dakota, and Wisconsin) permit municipalities to operate liquor stores. Available data indicate that 8 counties in Maryland, 28 counties and 3 cities in North Carolina, and 1 city in Oregon operate liquor dispensaries for revenue purposes. Maryland counties derived more than $1 million net profits from their liquor dispensaries in fiscal year 1950.[75] Although there is no local liquor tax in these cases, the monopoly systems can be considered as an alternative to local excises.

c. Revenues.—Alcoholic beverages constitute the largest single source of Federal excise revenue. They produced more than $2.5 billion or almost 30 percent of total excise revenues in fiscal year 1951.[76] Although taxes on alcoholic beverages have been increased several times since 1939, Federal revenue from this source has declined in importance relative to total excise revenues and total internal revenue. In fiscal year 1939, Federal alcoholic beverage tax collections were $588 million or 34 percent of the total derived from excises and over 11 percent of all internal revenue.

Alcoholic beverage excise tax collections by the States in fiscal year 1951 were $469 million or 5 percent of total tax revenues.[77] In 1950 (the latest year for which data are available), the 16 monopoly States, which depend largely on profits from liquor sales rather than on taxes, received $157 million of net income from their monopoly systems.

d. Administrative problems.—Federal administration of taxes on alcoholic beverages is facilitated by collection at the producer level in addition to the extensive Federal controls over various phases of industry operation. While there are occasional attempts to divert non-tax-paid alcohol from regularly licensed plants, controls over legal producers are such that enforcement work is concerned almost entirely with production in illegal plants. Illegal production is primarily a problem of the tax on distilled spirits. Small-scale illegal distilling activities in certain areas present a difficult problem of detection and apprehension of violators.

State administration is complicated to some extent by the fact that State excises are collected ordinarily from wholesalers and, in some

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[73] Alabama, Georgia, Louisiana, Maryland, and New Jersey (Distilled Spirits Institute, Public Revenues from Alcoholic Beverages, 1950).

[74] It is estimated that $2.2 million of New York City's general sales tax revenues in fiscal year 1950 were derived from alcoholic beverages. New Orleans collected $1.3 million in 1950 from its special excises on sales of alcoholic beverages in addition to amounts derived from such sales under its general sales tax (Distilled Spirits Institute, op. cit.).

[75] Ibid.

[76] Of this amount, $13.6 million was derived from occupational special tax stamps.

[77] Excluding unemployment compensation taxes.

cases, must be collected from retailers. This method of collection involves a considerably greater number of firms than does the Federal procedure of collecting taxes at the producers' level. State and local administration of alcoholic beverage taxes and control measures are coordinated to some extent with Federal administration. Federal, State, and local enforcement officers cooperate closely in many areas in the detection of illicit production. Many cases prepared by State and local enforcement officials have been turned over for further investigation by the Alcohol Tax Unit of the Bureau of Internal Revenue and presentation in the United States district courts.

While all levels of government have an equal interest in prevention of illegal production, the State and local units have special control functions beyond those of the Federal Government, as for example, the enforcement of local dry laws. "Dry" areas require policing to prevent imports of liquor, even though such liquor has been subjected to all required taxes. While only two States are classified as dry States, the local-option system has created "dry" areas within "wet" States. In some instances, local option has led to extensive areas of prohibition within States.

Some information available from Federal sources is helpful to the States in collecting the tax on interstate shipments and in preventing shipments to dry areas. Federal records showing wholesale shipments of distilled spirits are made available to the States on request. In addition, the States are furnished copies of the information submitted in connection with Federal occupational taxes on wholesale and retail dealers in alcoholic beverages.

e. Coordination proposals.—At the time of repeal of the eighteenth amendment, a number of proposals were made that the manufacture of alcoholic beverages be taxed exclusively by the Federal Government and the revenues shared with the States. Such proposals were included, for example, in the Fosdick-Scott study,[78] the report of the Interstate Commission on Conflicting Taxation,[79] and the Graves-Edmonds plan. These plans were not adopted, however, and Federal and State governments have developed their alcohol tax and control systems independently. Consequently, there is wide diversity in State and local tax rates, types of retail and wholesale outlets permitted, and types of alcoholic beverages permitted to be sold. In addition, scattered areas exist where sale of alcoholic liquors is prohibited. Different fiscal needs and social attitudes have thus become imbedded in the individual State and local systems.

Any system of coordination which might now be proposed must take due account of not only the varying revenue stakes of the governmental units in this field but of the vested interests of specific functional groups for which such revenues are earmarked. Recent studies have abandoned attempts at coordination and recommended that the Federal Government and the States continue their separate paths in the taxation of alcoholic beverages.[80] These studies indicate that taxation of liquor is closely tied to regulation of liquor consump-

[78] R. B. Fosdick and A. L. Scott, Toward Liquor Control, New York, 1933, p. 122.

[79] Conflicting Taxation, the 1935 progress report of the Interstate Commission on Conflicting Taxation, p. 6.

[80] Newcomer, Mabel, The Federal, State, and Local Tax Structure after the War, *Proceedings of the American Philosophical Society*, June 16, 1944. The report of the Committee on Intergovernmental Fiscal Relations while making no major recommendations does suggest that Federal occupational taxes should be eliminated (p. 514).

tion which, under the twenty-first amendment and Federal legislation, has been left entirely to State determination.

Because of the wide interstate variation in taxation of liquor which inevitably results from State sovereignty in liquor consumption policy, the contribution which the Federal Government can make to coordination is necessarily confined to administrative cooperation.[81]

3. *Motor-fuel taxes*

Motor fuel is now taxed by the Federal Government, each of the States, and a number of local governments.

The Federal tax on gasoline was introduced in 1932 as a depression emergency revenue measure, but has been continually in use since then.

State taxes on gasoline antedate the Federal levy. In 1919, Oregon introduced a tax on gasoline to provide revenue for State-highway construction. Within 10 years the gasoline tax was adopted by every State in the Union. The early motor-fuel taxes applied only to gasoline but with the development and widespread use of Diesel oil and other liquid motor fuels the tax has been extended to these products.

In their search for new sources of revenue, cities and counties in seven States have also entered the gasoline-tax field. In some cases the proceeds of municipal gasoline taxes are earmarked for streets and roads while in other cases they are used for general fund purposes. In Alabama, both cities and counties levy gasoline taxes, resulting in taxation at four governmental levels.

a. Federal tax.—The Federal tax, as enacted in 1932, imposed a rate of 1 cent per gallon at the manufacturers' level. The rate was increased to 1½ cents from June 18, 1933, to January 1, 1934. At the end of that period, it reverted to 1 cent and remained at that level until it was again raised to 1½ cents by the Revenue Act of 1940. The Revenue Act of 1951 increased the rate on gasoline to 2 cents a gallon and, in addition, imposed a retail tax of 2 cents a gallon on Diesel fuel intended for highway use. The 2-cent rate on gasoline and Diesel fuel is scheduled to revert automatically to 1½ cents a gallon on April 1, 1954.

b. State and local taxes.—State gasoline taxes range from 2 cents per gallon in Missouri to 9 cents per gallon in Louisiana (table 22). The rate exceeds 4 cents a gallon in more than three-fourths of the States and is as high as 6 cents a gallon in more than one-third of the States. Diesel fuel for highway use is generally taxed at the same rate as gasoline. Some States, however, tax the two motor fuels at different rates. New York, for example, taxes gasoline at 4 cents a gallon and Diesel fuel used on highways at 6 cents per gallon. A few States do not tax Diesel fuel but instead impose special compensatory license taxes on vehicles using this fuel.

Local gasoline taxes are imposed in 7 States [82] by 286 municipalities and 12 counties at rates ranging from one-fifth of a cent to 3 cents per gallon. As a result of overlapping Federal, State, and local taxation, the combined rate reaches 12 cents in Mississippi (table 23).

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[81] Tentative proposals have been made by State representatives that a more centralized collection system be adopted for State excise taxes so that producers could pay the State tax at the same time that they paid the Federal tax. This is similar to the proposal for collection of State cigarette taxes at the manufacturers' level which is discussed in the preceding section.

[82] Alabama, Florida, Mississippi, Missouri, Nevada, New Mexico, and Wyoming.

TABLE 22.—*State motor fuel tax rates,*[1] *Jan. 1, 1952*

[Per gallon]

2 cents: Missouri
  Total, 1.
3 cents: New Jersey
  Total, 1.
4 cents:
  Connecticut
  Illinois [2]
  Indiana
  Iowa
  New York
  Ohio
  Rhode Island
  Texas
  Wisconsin
  District of Columbia [2]
  Total, 10.
4.3 cents: Massachusetts
  Total, 1.
4½ cents:
  California
  Michigan
  Total, 2.
5 cents:
  Arizona
  Delaware
  Kansas [2]
  Maryland
  Minnesota
  Nebraska
  New Hampshire [2]
  North Dakota
  Pennsylvania [2]
  South Dakota
  Utah
  Vermont
  West Virginia
  Wyoming
  Total, 14.
5½ cents: Nevada [2]
  Total, 1.
6 cents:
  Alabama
  Colorado [2]
  Georgia
  Idaho
  Maine
  Montana
  New Mexico
  Oregon
  Virginia
  Total, 9.
6½ cents:
  Arkansas
  Oklahoma [2]
  Washington
  Total, 3.
7 cents:
  Florida
  Kentucky
  Mississippi
  North Carolina
  South Carolina [2]
  Tennessee
  Total, 6.
9 cents: Louisiana
  Total, 1.

[1] In most States, Diesel fuel and other petroleum products are taxed at the same rate as gasoline. The States which tax Diesel fuel at a different rate are as follows: Michigan, 6 cents; Mississippi, 8 cents; New York, 6 cents; Texas, 6 cents; Wyoming, 4 cents. In Nebraska, Diesel fuel is not subject to tax.

[2] The rates shown include temporary rates of indicated amounts which expire on the dates shown: Colorado, 2 cents, June 30, 1953; Illinois, 1 cent, Dec. 31, 1952 (thereafter the total rate will be 5 cents); Kansas, 1 cent, June 30, 1953; Nevada, 1½ cents, June 30, 1953; Oklahoma, 1 cent, May 31, 1953; Pennsylvania, 2 cents, May 31, 1953; New Hampshire, 1 cent, July 1, 1966; South Carolina, 1 cent, June 30, 1954; District of Columbia, 1 cent, June 30, 1952.

TABLE 23.—*Frequency distribution of local gasoline tax rates, Jan. 1, 1952*

[Per gallon]

State	State tax rate	Municipalities							Counties			
		⅛ cent	¼ cent	½ cent	1 cent	1½ cents	2 cents	Total	1 cent	2 cents	3 cents	Total
	Cents											
Alabama [1]	6	------	2	6	150	2	19	[2] 179	8	------	1	9
Florida	7	------	------	------	1	------	------	1	------	------	------	------
Mississippi	7	------	------	------	------	------	------	------	------	2	1	3
Missouri	2	1	1	24	33	1	------	60	------	------	------	------
Nevada	5½	------	------	------	1	------	------	1	(3)	------	------	------
New Mexico	6	------	1	9	28	------	------	38	------	------	------	------
Wyoming	5	------	------	3	4	------	------	7	------	------	------	------
Total	------	1	4	42	217	3	19	286	8	2	2	12

[1] The rates shown apply only in the town or city. Rates in police jurisdictions are generally lower, usually ½ the city or town rate.

[2] 7 of these cities are located in counties which also impose a gasoline tax.

[3] Nevada levies a 1-cent gasoline tax for county and city road purposes. Counties may decline to accept the tax, but no county has rejected it.

Source: American Petroleum Industries Committee of the American Petroleum Institute, mimeograph June 12, 1950, and Commerce Clearing House, State Tax Reporter.

c. Revenue.—The tax on gasoline and other motor fuels has become one of the most important sources of State revenue. Collections in fiscal year 1951 amounted to $1.7 billion, more than the total yield of the State individual and corporate income taxes, and accounted for about 20 percent of total State tax revenues.[83] The Federal 1½-cent

[83] Excluding unemployment-compensation taxes.

27006—53——6

gasoline tax yielded $569 million or 1.3 percent of total internal-revenue collections in fiscal year 1951.

The State gasoline tax has been developed largely as a benefit tax on highway users and usually has been earmarked for highway purposes. Gasoline used for nonhighway purposes is generally exempt from tax, or refunds are provided for taxes paid on such consumption. In many States, gasoline taxes have been earmarked for servicing highway debt. In 1950, 32 States used part of their gasoline taxes for servicing this type of indebtedness.[84]

d. Administrative problems.—The Federal tax on gasoline is relatively easy to administer. Collection costs are low, enforcement problems are minor, and the scope of the tax is well understood by taxpayers. The Federal tax on Diesel oil intended for highway use, imposed under the 1951 Revenue Act, probably will result in some administrative problems in connection with the segregation of taxable Diesel oil (used for highway purposes) from nontaxable Diesel oil (used for heating, stationary engines, and other purposes). Moreover, since it is imposed at the retail level, the Diesel oil tax involves a substantially larger number of taxpayers than the gasoline tax which is imposed at the manufacturers' level.[85]

State gasoline taxes ordinarily are collected from the refiner or the first importer, while taxes on Diesel fuel are collected in some cases from the retail vendor and in other cases from the user. Because the tax applies only to Diesel fuel used in motor vehicles, some States collect the tax primarily from the user. Recent State legislation designed to strengthen administration of the Diesel fuel tax, however, tends toward collection of the tax from dealers who deliver the fuel into the supply tank of a motor vehicle rather than from users only.

One of the most serious administrative problems at the State level arises in connection with interstate shipments of gasoline. States with relatively high tax rates find that some dealers located within their borders attempt to avoid the tax by purchasing "bootleg" gasoline from States with lower rates. This problem is being resolved through interstate exchange of information on the movement of gasoline across State boundaries. Furthermore, State tax administrators have been granted access to all records and returns filed by taxpayers under the Federal gasoline tax.

e. Coordination proposals.—Frequent proposals have been made for the repeal of the Federal gasoline tax. These proposals have been strongly supported by the States, by the petroleum industry, by highway organizations, and by some Members of Congress. The Senate Finance Committee recommended the elimination of the tax in 1933 and 1935 on the ground that it was an unwarranted invasion of a field of taxation formerly reserved to the States. The Interstate Commission on Conflicting Taxation in 1933 and the Council of State Governments in 1937 urged the Federal Government to relinquish this source of revenue to the States.[86]

The Joint Conference of Representatives of Congress and of the Governors Conference in September 1947, in connection with its recommendation that the Federal Government take steps to reduce certain excises most suitable for State and local use, included the gaso-

[84] Department of Commerce, Bureau of Public Roads, Disposition of State Motor-Fuel Receipts—1950, August 1951.
[85] Provision is also made for payment of tax by the user if the Diesel fuel has not been taxed previously.
[86] Report of the Committee on Intergovernmental Fiscal Relations, op. cit., p. 517.

line tax in the list of taxes which should receive immediate consideration. It may be noted that the Canadian Dominion Government repealed its gasoline tax on April 1, 1947, on the ground that this field was one that had been traditionally occupied by the provincial governments and had been entered by the Dominion under wartime emergency conditions.

The Committee on Intergovernmental Fiscal Relations, in 1942, suggested that separation of sources in the motor fuel tax field might take the form of exclusive Federal taxation of fuel used in aviation and exclusive State taxation of other motor fuel.[87] In most States, aviation gasoline falls within the general classification of motor fuel. However, 38 States provide for exemption from tax or full refund of tax paid on motor fuel used for aviation purposes.[88] All the other States provide partial refund of tax on aviation fuel, although in some cases the refund is allowed only to users of large quantities of aviation gasoline.

The Civil Aeronautics Board in its 1945 report on Multiple Taxation of Air Commerce expressed the opinion that the States should refrain from the taxation of aviation fuel used in interstate commerce, but indicated the desirability of having the Treasury study the problem to work out some equitable relationship between the States and the Federal Gvernment with respect to the taxation of motor fuel and aviation gasoline.[89] Subsequently, bills were introduced into Congress which proposed that the Treasury consult with the governors and fiscal authorities of the States with respect to State and Federal taxation of aviation fuel and recommend to the Congress a program in this field.[90] In 1950, the proposal was made that beginning in 1953 the Federal taxes be increased 1½ cents per gallon on high-octane aviation gasoline as a step toward making the Federal airways self-supporting.[91]

Proposals that the Federal Government withdraw from the motor-fuel tax field proceed from the view that the Federal Government's participation in motor fuel taxation rests on weaker grounds than its participation in most other areas of taxation shared by Federal and State governments because the States entered this field of taxation a dozen years in advance of the Federal Government. This historical approach, however, entails evaluation of the significance of two decades of continuous use of this revenue source by the Federal Government.

Intergovernmental coordination in the motor-fuel tax field will of necessity involve recognition of relative revenue needs and their relationship to expenditures for highways, suitability of administration at various levels, and the effects of overlapping taxation on highway users and revenue receipts of the various governmental units. Administrative and compliance consideration favor Federal taxation to some extent although interstate cooperation in administration has minimized State administrative problems arising from interstate shipments.

[87] *Ibid.*, p. 527. This recommendation presupposes that aviation gasoline will remain a product separate from motor vehicle gasoline.

[88] "Status of State Aviation Laws," September 1951, table compiled by Civil Aeronautics Administration from data assembled by the National Association of State Aviation Officials.

[89] House Doc. No. 141, 79th Cong., 1st sess.

[90] H. R. 1241, 80th Cong., 1st sess., and S. 420, 81st Cong., 1st sess.

[91] Statement of D. W. Rentzel, Administrator of Civil Aeronautics, hearings on transportation problems before a subcommittee of the House Committee on Interstate and Foreign Commerce, 81st Cong., 2d sess., pt. 1, 1950.

In spite of the criticism of multiple taxation of motor fuel, it would appear that thus far taxation of motor fuel by the Federal Government has not had any important effects on State and local motor-fuel revenue potentialities. The converse cannot be maintained since the level of State and local rates is an important limitation on the use of motor-fuel taxes at the Federal level.

Repeal of the Federal tax would entail some disadvantages. Of importance is the difficulty of finding replacement revenues for the $900 million which the Federal Government expects to receive from the 2-cent per gallon tax. Although the Federal tax is a general revenue source and is not directly related to Federal highway aid, Federal withdrawal from this field might affect Congressional attitude toward the aid programs.[92]

4. Amusement taxes

In the field of amusement taxation, Federal-State-local overlapping is of most significance with respect to the tax on general admissions, although taxes on special types of amusements (bowling alleys, pool tables, coin-operated amusement and gambling devices) are levied at all three levels of government. The Federal levies on cabaret charges and dues and membership fees have few counterparts at the State and local level.

Federal revenues from amusement taxes reached a peak of $504.5 million in 1947 and have since declined steadily principally because of the downward trend of motion-picture theater admissions. For fiscal year ending June 30, 1951, Federal revenues from amusement taxes were as follows:

	Million
Admissions to theaters, concerts, etc	$346
Admissions to cabarets, roof gardens, etc	43
Club dues and initiation fees	30
Coin-operated devices	21
Bowling alleys, pool tables, etc	4
Total	444

The Federal tax on gambling which was adopted in 1951 specifically exempts pari-mutuel betting licensed under State law and thus reserves this important source of revenue to the States.

a. Admissions taxes

(1) Federal taxes

The Federal tax on general admissions was adopted by the Revenue Act of October 3, 1917. The basic rate on general admissions remained unchanged at 1 cent for each 10 cents or fraction until April 1, 1944, when it was increased to 1 cent for each 5 cents or major fraction. Although the rate was not changed for a period of 25 years, the tax base was altered several times between 1921 and 1941 by changes in price exemptions. In the latter year, the price exemption was eliminated.

Prior to 1941, admissions to activities of designated nonprofit organizations were exempted from the tax. The Revenue Act of 1941 removed all such exemptions, but the Revenue Act of 1951 restored

[92] Expenditures of $500 million annually are authorized under the Federal-aid highway program. The President's Budget Message for 1953 estimates that expenditures for fiscal years 1952 and 1953 will be $412 million and $400 million, respectively.

exemptions with respect to admissions to symphony concerts, operas, and activities for the benefit of specified educational, religious, and charitable institutions operated on a nonprofit basis.

The Federal cabaret tax was enacted as part of the general admissions tax in 1917. It was designed to supplement the admissions tax in cases where entertainment is combined with the serving of food and beverages and the charge for admission to such entertainment is included in whole or in part in an over-all charge for food, beverages, and service. The tax base was set at 20 percent of the over-all charge, exclusive of the cover charge. The cover charge was taxed as an ordinary admission. Where the cover charge was considered a fair and reasonable charge compared with admissions charges for similar entertainment, no tax was imposed on the charge for food, beverages, and service.

The cabaret tax rate was originally the same as the general admissions tax rate (1 cent for each 10 cents or fraction) but was increased in 1918 to 1½ cents for each 10 cents or fraction and in 1940 to 2 cents for each 10 cents or fraction while the admissions tax rate remained unchanged. The Revenue Act of 1941 revised both the base and rate of the cabaret tax. It imposed a flat tax of 5 percent on the entire bill (for admission, food, beverages, and service), including any separately stated cover charge. This rate was raised to 30 percent on April 1, 1944, but was lowered to 20 percent in July 1, 1944, and has since remained at this level.

(2) State and local taxes

The first State tax on admissions was adopted in 1921 by Connecticut in the form of a tax supplement equal to one-half the Federal tax. Because of increases in the price exemptions under the Federal tax during the 1920's, State revenues from this source virtually disappeared and the tax was repealed as of July 1, 1929. However, a license tax based on seating capacity, enacted in 1927, was continued and is still in effect. South Carolina and Mississippi introduced admissions taxes in 1923 and 1930, respectively.

At present, admissions are taxed by 26 States. In only eight of these are special taxes imposed; in all the others, admissions are included in the base of the general sales tax (table 24). Approximately half of the States impose a rate of 2 percent. In only four States does the rate of about 10 percent appear to be sufficiently high to raise a serious problem of duplication with the Federal tax. Each of these States, however, has special provisions which ameliorate the degree of overlapping. Kentucky provides an exclusion for the first 10 cents of admissions; Mississippi has a preferential rate for theater and moving-picture show admissions of 25 cents or less; South Carolina exempts moving picture theaters (which pay an annual license tax based on seating capacity); and Texas exempts general admissions of 51 cents or less.

TABLE 24.—*State taxes on general admissions,*[1] *Jan. 1, 1952*

State	Tax applicable to [2]	Tax rate and measure	Exemptions [3]
Alabama [4]	Amusement operators	3 percent of gross receipts	None specified.
Arizona [4]	do	2 percent of gross receipts	Activities of religious and educational institutions.
Arkansas [4]	Sales of admissions	do	Activities of nonprofit organizations; fairs.
Florida [4]	do	3 percent	Admissions of less than 40 cents; shows and plays, the total proceeds of which inure to the benefit of religious, educational or charitable institutions; dog and horse racing (otherwise taxed).
Georgia [4]	do	3 percent of sales price of admissions.	None specified.
Indiana [4]	Amusement operators	1¼ percent of gross income (in excess of $1,000 per year).	Activities of churches, fraternal benefit societies, labor unions, hospitals, and public and parochial schools.
Iowa [4]	Sales of admissions to places of amusement and athletic events.	2 percent of gross receipts	Activities of nonprofit organizations; fairs.
Kansas [4]	Sales of admissions to places of amusement.	do	Do.
Kentucky	do	11 to 18 cents, 1 cent; 19 to 28 cents, 2 cents; 29 to 38 cents, 3 cents; 39 cents to $1, 3 cents plus 1 cent additional for each 10 cents over 38 cents. Over $1, 10 cents plus 1 cent additional for each 25 cents over $1.	Admissions of less than 11 cents; 50 cents of each admission to athletic contests; race tracks (otherwise taxed); municipal bathing beaches and pools; admissions, 75 percent of which are used for charitable, religious, and educational purposes; dramatic or musical productions presented by civic organizations in municipal parks.
Louisiana [4]	Sales of admissions	2 percent	None specified.
	Operators of theaters, moving-picture shows, skating rinks, and similar places of amusements.	Ranges from $10 on gross annual receipts of less than $2,500 to $2,750 on gross receipts of $550,000 or more.	Do.
Maryland	Amusement operators	½ of 1 percent of gross receipts. For passes or reduced charges when regular admission charge is: Not over 50 cents, 5 cents; 50 cents to $1, 10 cents; Over $1, 15 cents.	Receipts for charitable, religious, or educational purposes, or those which inure to the benefit of volunteer fire departments; admissions to school, orphanage, and church entertainments.
Mississippi	do	1 cent for each 10 cents or fraction. Theaters and moving picture show admissions of 25 cents or less: ½ cent on each 10 cents or fraction.	Activities of nonprofit organizations; fairs; athletic games between high schools and grammar schools
Missouri [4]	Sales of admissions to places of amusement.	2 percent of admission paid.	None specified.
Montana	Operators of moving picture theaters.	1¼ percent of gross receipts (in excess of $3,000 per quarter).	Activities of nonprofit organizations.
New Mexico [4]	Amusement operators	2 percent of gross receipts.	Do.
North Carolina [4]	do	3 percent of gross receipts.	Moving picture theaters (otherwise taxed); athletic contests of high schools and elementary schools; admissions of 50 cents or less to athletic contests.
North Dakota [4]	Sales of admissions to places of amusement.	2 percent of gross receipts.	Activities of nonprofit organizations; fairs.
Oklahoma [4]	do	do	Fairs; church activities.
South Carolina	Admissions to places of amusement.	1 cent for each 10 cents or fraction of admission paid.	Moving picture theaters and public bathing beaches (otherwise taxed); activities of nonprofit organizations; fairs; amateur performances; athletic contests of colleges, schools.
South Dakota [4]	Sales of admissions to places of amusement.	2 percent of gross receipts.	Activities of nonprofit organizations; fairs.
Tennessee	Operators of theaters, moving picture and vaudeville shows.	do	None specified.

See footnotes at end of table, p. 71.

TABLE 24.—*State taxes on general admissions,*[1] *Jan. 1, 1952*—Continued

State	Tax applicable to [2]	Tax rate and measure	Exemptions [3]
Texas	Amusement operators	1 cent on each 10 cents or fraction of admission; season tickets, 10 percent of amount paid.	Admissions of 51 cents or less; activities of nonprofit organizations.
Utah [4]	Amount paid for admission to places of amusement.	2 percent of admission paid.	State fairs.
Washington [4]	Amusement operators	½ of 1 percent of gross receipts (in excess of $600 per bimonthly period).	Horse racing; boxing and wrestling (otherwise taxed).
West Virginia [4]	Sales of admissions to places of amusement.	2 percent of admission paid.	Activities of nonprofit organizations where no professional talent is hired.
	Amusement operators	65/100 of 1 percent of gross receipts (tax credit of $50 per year).	Activities of nonprofit organizations.
Wyoming [4]	Amount paid for admission to places of amusement.	2 percent of admission paid.	None specified.

1 In general, this tabulation excludes business licenses and inspection fees applicable to amusement operators. Special taxes on admissions to horse racing and boxing and wrestling matches are shown in tables 26 and 25.

2 States taxes on amusements are collected, in the first instance, from operators of amusement places. In most cases the tax is separately stated and added to the price of admission. Authority for passing on the tax is found in some cases in mandatory or permissive statutes and in other cases in administrative regulations.

3 In States which tax admissions under the general sales tax, an exemption in terms of price of admission may result from the operation of the bracket system under the sales tax. Such exemptions are not shown here.

4 Admissions are taxed under the general sales, gross receipts, or gross income tax.

In about half of the States, exemption is provided for admissions to entertainments of nonprofit organizations; in about one-third of the States admissions to agricultural fairs are exempt.

Kentucky and Maryland are the only States which apply the admissions tax to cabarets. Under Kentucky's tax, the charge for admission to places which serve food or drink and employ professional entertainers is deemed to be 25 percent of the total charge (including any cover charge), or the cover charge, whichever is greater. Kentucky's rate is the equivalent of about 2½ percent of the total charge.[93] Maryland's rate is one-half percent of the total charge.

Special taxes on club dues or initiation fees are not generally imposed by the States. However, the general sales tax commonly applies to such payments if the right to admission is the principal or sole privilege of membership.

Gross receipts from boxing and wrestling and athletic exhibitions are subject to selective excises in about two-thirds of the States. In most States, the rate is 5 percent of gross receipts; in others, it is either 3 or 10 percent (table 25). Ten States tax admissions to horse racing with rates ranging from 10 to 20 cents per admission or from 10 to 15 percent of admissions receipts (table 26). In a few States, the general admissions tax is imposed in addition to the special levies on these various types of sporting events.

93 The admissions tax rate is about 10 percent. The rate applicable to cabarets is approximately 10 percent of 25 percent (2½ percent) of the total charge.

TABLE 25.—*State tax rates on admissions to boxing and wrestling matches and athletic exhibitions, Jan. 1, 1950*

3 percent:
- Maine [1]
- New Hampshire
- Texas

5 percent:
- California [2]
- Colorado [3]
- Connecticut
- Delaware [4]
- Kentucky
- Louisiana
- Massachusetts [1]

5 percent—Continued
- Missouri
- Mississippi
- Montana
- Nebraska
- New York [5]
- North Dakota
- Pennsylvania
- Rhode Island [6]
- Vermont
- Virginia
- Washington

5 percent—Continued
- West Virginia
- Wisconsin [1]

10 percent:
- Idaho
- Illinois
- Indiana
- Michigan [7]
- Minnesota [1]
- New Jersey [8]
- South Dakota

[1] Only boxing is taxed.
[2] Rate is 1 cent for each 20 cents or fraction thereof or $15 annually, whichever is greater.
[3] Exclusive of proceeds collected for benefit of disabled veterans or persons on active military service.
[4] Rate is 10 percent for championship matches.
[5] Tax applies to total gross receipts, including receipts from radio, television, and motion-picture rights.
[6] Limited to 2 percent on first $1,000 of gross receipts.
[7] Rate is 5 percent if national or international championship match.
[8] State Athletic Commissioner has discretionary authority to reduce tax to 5 percent where championship title is at stake.

Source: Federation of Tax Administrators, Multiple Taxation of Amusements and Selected Utility Services: Federal, State, and Local, Research Report No. 27, January 1950, p. 7.

TABLE 26.—*State tax rates on admissions to horse racing, Jan. 1, 1952*

10 percent:
- Arkansas [1]
- New Mexico
- Texas [3]

15 percent:
- Florida [1]
- New York

10 cents per admission:
- Louisiana

15 cents per admission:
- Kentucky
- Nebraska

20 cents per admission:
- Delaware [2]
- Illinois

[1] Or 10 cents, whichever is greater.
[2] 10 cents for harness races.
[3] Admissions to horse racing are not subject to a special tax but are taxed under the general admissions tax (at the rate of 1 cent on each 10 cents or fraction of admission paid).

Source: Federation of Tax Administrators, Multiple Taxation of Amusements and Selected Utility Services: Federal, State, and Local, Research Report No. 27, January 1950, p. 8; Commerce Clearing House, State Tax Reporter.

A significant recent development is the adoption of admissions taxes by municipalities. Philadelphia was the first large city to use this source of revenue. Its tax of 1 cent on each 25 cents of admission charges was imposed in 1937. Although admissions taxes are imposed by municipalities in about 15 States, most of the local admissions taxes are concentrated in 3 States, Ohio, Pennsylvania, and Washington (table 27). Washington (in 1943) and Ohio (in 1947) repealed their State admission taxes in order to leave this source of revenue to local governments. Pennsylvania local governments (including school districts and townships as well as cities) impose admissions taxes under the broad taxing powers conferred on them by the 1947 Enabling Act.[94] Other States have granted authority to specific cities or cities of specified size to impose admissions taxes. In some States, local authority to impose such taxes is found in home-rule provisions or charters or is derived from general or specific business-licensing powers.

Municipal admissions tax rates in most States range between 2 and 5 percent, with the latter rate in most common use. In Alabama, Pennsylvania, and Virginia, however, the tax is generally 1 cent for each 10 cents.

[94] New York State, in 1948, authorized counties and cities with a population of more than 25,000 to impose a 5-percent tax on admissions, but this authorization has been little used.

TABLE 27.—*Municipal taxes on admissions,*[1] *Jan. 1, 1952*

State	Cities or counties	Tax rate and measure
Alabama	Colbert County [2]	1 percent of gross receipts.
	Lauderdale County [2]	Do.
	Florence [2]	½ percent of gross receipts.[3]
	Marion County [2]	1 percent of gross receipts.
	Tuscaloosa County [2]	Do.
	Anniston	10 percent of admission price.
	Gadsden	Do.
	Mobile	Do.
	Tuscaloosa	5 percent of admission price.
	At least 10 other cities	Generally 10 percent of gross receipts.
California	Several fifth- and sixth-class cities and various charter cities.	Generally 1 to 5 cents per admission.
Georgia	Savannah	1 cent per 50 cents on $5 or less; over $5, 2 percent.
Illinois	Alton	4 percent of admission price.
	Bloomington	Do.
	Chicago	3 percent of admission price.
	Rock Island	2 percent of admission price.
	Springfield	3 percent of admission price.
	At least 8 other cities	Generally 3 or 4 percent of admission price.
Louisiana	New Orleans:	
	Admissions to places of amusement, athletic, entertainment, or recreational events.[2]	1 percent of gross receipts.
	Theaters and motion pictures	2 percent of admission price.
	Other admissions	5 percent of admission price.
Maryland	Baltimore County	4½ percent of admission price.
	St. Mary's County	5 percent of admission price.
Missouri	Hannibal	2 percent of gross receipts.
	Richmond Heights	5 percent of gross receipts.
	Sedalia	Do.
New Jersey	Atlantic City	3 percent of admission price.
	Camden	1 percent of admission price.
New York	Binghamton	5 percent of admission price.
	Elmira	Do.
Ohio	Akron	3 percent of admission price.
	Cincinnati	Do.
	Cleveland	Do.
	Columbus	Do.
	Youngstown	Do.
	At least 110 other cities	Generally 3 percent of admission price.
Oregon	Eugene	3 percent of admission price.
Pennsylvania	Allentown	8 percent of admission price.
	Altoona	10 percent of admission price.
	Philadelphia	Do.
	Pittsburgh	Do.
	Reading	Do.
	At least 115 other cities	Generally 10 percent of admission price.
Tennessee	Dyersburg	5 percent of admission price.
	Knoxville	2 percent of admission price.
	Nashville	Do.
Virginia	Alexandria	6 percent of admission price.
	Falls Church	2 cents per admission.
	Lynchburg	5 percent of admission price.
	Richmond	Do.
	Norfolk	10 percent of admission price.
	At least 12 other cities	1 percent to 10 percent of admission price.
Washington	All cities of more than 10,000 population.	5 percent of admission price.

[1] Data shown were obtained from several sources (indicated above) and are necessarily incomplete and may contain inaccuracies.
[2] Admissions are taxed under the general sales tax.
[3] The Lauderdale County rate in the city of Florence is one-half percent.

Sources: International City Managers Association, Municipal Year Book, 1950 and 1951; Municipal Finance Officers Association, Where Cities Get Their Money, 1947, 1949, and 1950 supplements; Commerce Clearing House, State Tax Reporter.

b. Other amusement taxes.—State and Federal overlapping exists with respect to taxes on bowling, billiards, and pool, and on coin-operated amusement and gambling devices. A tax on pool tables and bowling alleys was adopted by the Federal Government under the

the Revenue Act of 1914, was repealed in 1926, and reenacted in 1941. The present rate is $20 per table or alley per year. The Federal tax on coin-operated amusement and gambling devices was imposed by the Revenue Act of 1941. The present rates are $10 and $250, respectively, per machine per year.

Miscellaneous annual license fees are imposed on operators of bowling alleys and billiard and pool tables in approximately one-third of the States. The rates per alley or table range from $5 to $30 per year.[95]

Approximately 17 States impose taxes on non prize-rendering pinball machines, and 8 States tax coin-operated prize-rendering machines although only 2 States (Idaho and Nevada) legalize the operation of gambling devices.[96] Nevada first taxed slot machines in 1932 and several other States also entered this field before the Federal Government. In several States the general sales or gross receipts taxes apply to bowling alleys, billiard tables and coin-operated devices.

State and city taxation of coin-operated amusement and gambling devices is expanding. Some State taxes on amusement devices are limited to areas outside cities and towns, with the right to impose similar license taxes reserved for the municipalities. Some States which authorize cities (or counties) to impose such taxes prescribe a minimum rate and sometimes a maximum rate, leaving the local governments authority to fix the actual rate.

Both State and city rates on coin-operated amusement devices are generally within the range of $5 to $15 per year although in some cases they may be as much as $100 or more per machine. Taxes on gambling devices are often considerably higher than those on amusement devices.

Since the Federal taxes on amusement machines and bowling and billiards are moderate, no particular issue has been raised as a result of the overlapping. While both Federal and State (or local) taxes on gambling devices are relatively high, there is a disposition to regard these taxes as being of a sumptuary nature, and in some cases they are clearly intended to be prohibitive.

c. Intergovernmental coordination of admissions taxes

(1) State-local coordination

In general, there is no serious overlapping of State and local admissions taxes. Local taxes on admissions have been developed principally where State governments have refrained from this form of taxation. As already noted, the trend since 1943 appears to be in the direction of leaving this source of revenue to local governments. North Carolina and Florida, however, are exceptions. North Carolina repealed its 3-percent tax on admissions to motion-picture theaters in 1943 without authorizing local governments to levy such a tax. When Florida adopted a 3-percent sales tax in 1949 and included admissions in the sales-tax base, municipalities were denied use of this tax except for taxes already in effect.

[95] For details regarding rates, see Federation of Tax Administrators, Multiple Taxation of Amusements and Selected Utility Services: Federal, State and Local, Research Report No. 27 (1950).

[96] Washington and Montana permit slot machines in private clubs. Prior to March 1947, Idaho permitted the operation of gambling devices only in private clubs, but at present legalization depends on local option. For further details on gambling taxes, see Federation of Tax Administrators, State Taxes on Gambling, Research Report No. 24 (1949).

(2) Federal-State-local coordination

Representatives of State and local Governments in their postwar tax coordination proposals have cited the admissions tax as one particularly suitable for State and local administration and have taken the position that the existence of a 20 percent Federal tax constitutes a barrier to more extensive use of admissions taxes by States and localities. Combined Federal- and State-local rates at present frequently reach 30 percent.

Several methods have been proposed for removing Federal obstacles to the further development of State and local admissions taxes, including withdrawal of the Federal Government from this field. A less drastic approach would reduce the Federal tax to the prewar 10 percent rate. Federal rate reduction also could take the form of a price exemption (under which admissions not in excess of a specified amount would be tax-free) such as that in effect before 1941. Other suggested methods include Federal collection with State-local sharing of revenues, local supplements to the Federal tax, and use of the tax-credit device.

(a) Federal rate reduction proposals

Complete Federal withdrawal has been urged as being most consistent with a general policy of separation of revenue sources between the Federal Government and the States. The American Municipal Association adopted a resolution to this effect on December 2, 1949.

The admissions tax would have a relatively low priority in any future Federal tax reduction program because it is imposed on a relatively nonessential service and is distributed fairly progressively with respect to the lower- and middle-income groups. Furthermore, relinquishment of the admissions tax by the Federal Government, in the interest of tax coordination, would be good policy only if State and local Governments made approximately equal effective use of this revenue source within a reasonably short time. Failing this result, the revenue lost to the combined Federal-State-local tax system might have to be made up from tax sources less desirable to the economy than the relinquished admissions taxes.

The further development of admissions taxes by local governments would be delayed by the need for securing enabling legislation in many States and the resistance which the industry may be expected to present. If all or part of the Federal admissions tax were relinquished, its uneven adoption by various governmental units would leave sharp discriminations between firms operating in the city and those in adjoining areas outside the city's jurisdiction, such as suburbs and outlying towns and counties. While this situation might not result in a serious revenue loss to the city, in many instances fear of such loss would tend to militate against the adoption of admissions taxes at rates equivalent to the present Federal rate. On balance, Federal tax reduction cannot be expected to remove the obstacles to local utilization of admissions taxes.

Uniformity of taxation with respect to competing types of amusements must also be considered. In addition to the Nation-wide taxes on general admissions, carbarets, club dues, and initiation fees, Federal taxes are now imposed also on coin-operated devices, bowling alleys, pool tables, and similar activities. This comprehensive system strives for equality of treatment among competing amusements. Withdrawal of the Federal Government from the admissions tax would represent a departure from this principle and would be likely to introduce discrimination among different types of amusements competing for the consumer's amusement dollar.

The use of price exemptions is the least satisfactory method of reducing the Federal tax. It would exempt from Federal tax admissions up to a certain price limit, in accordance with the practice between 1921 and 1941, leaving the lower price admissions to the States and localities. Under this system, with only partial utilization of the tax by States and localities, the moving-picture industry would obtain a relative advantage in the amusement field because its price scale is substantially lower than that for other entertainments. Serious discrimination might therefore arise against the legitimate theater, concerts, and spectator sports.

(*b*) *Federal sharing with State and local governments*

It also has been suggested that the Federal Government continue collection of the admissions tax and share the revenues with States (and local governments). Under a system of sharing, State and local governments presumably would withdraw from this field and the unified tax collection system would result in administrative economies. With only one tax, the difficulties arising from independent action of local units would be avoided and various types of amusements would be subject to the same tax rate in all areas.

The most common basis for allocating revenue under a sharing system is the point of origin of the revenues. If this basis were used, more detailed Federal records would be required. This should be administratively feasible, but agreement would have to be reached as to the details of the Federal allocation, that is, whether distribution should be made to States only or should reach as far down as the municipal level.

Another important aspect of a system of sharing which should be considered is the lack of correlation between Federal distributions and the needs and desires for the revenue by the States and localities. To the governmental unit with currently adequate revenue, sharing might be looked upon as the imposition of an additional tax which the community did not need or want.

(*c*) *Tax credit*

Under the tax credit device, the Federal Government would continue to levy the admissions tax at present rates but would give a credit for similar taxes paid to State and local governments. The credit could be limited to a certain percent of the admissions charge, for example, 10 percent; or it could be unlimited, depending on relative Federal and State needs. Some precedent for this device is found in the estate and gift tax and the unemployment insurance tax. While favoring repeal of the Federal admissions tax ultimately, the American Municipal Association has suggested use of the crediting device as an intermediate step.[97]

This approach would effectively remove Federal tax rate obstacles to the State and local development of the admissions tax to the extent of the credit given. Increased State and local taxation would be encouraged by the desire to retain for local governments the revenues

[97] Hearings before the Committee on Ways and Means, Revenue Revision of 1950, pp. 1276-1277.

which otherwise would go to the Federal Government. State and local discretion as to using this tax source, however, would be preserved.

The crediting device would not further impair uniformity of admissions taxation but actually would improve it since it would tend to eliminate present multiple rates. Local reluctance to adoption arising from fear of competition and other factors would be eliminated, and discrimination among competing forms of entertainment through differential rates could be minimized. Aggregate revenue would be reduced only by the amount of State and local admissions taxes currently levied.

5. Local telephone service tax

a. Federal tax.—The Federal Government has imposed a tax on payments for local telephone service since 1941. The tax which supplements Federal excises on long-distance communications, applies to payments by subscribers for telephone service within a local exchange area. Payments by subscribers for toll calls costing 24 cents or less are included. Amounts paid for coin-operated telephone service also are taxable to the extent of any guaranteed amount plus any fixed monthly or other periodic payment made by the location owner. The 15-percent rate, which has been in effect since May 1, 1944, is payable by the person purchasing the service and is collected by the person furnishing the service.

b. State and local taxes.—Approximately half of the 31 States (and the District of Columbia), which impose a general sales tax apply the tax to charges for local telephone service. The most common rate is 2 percent. Telephone companies are subject to gross-receipts taxes in 27 States and the District of Columbia. In many States these gross-receipts taxes are levied in lieu of property taxes or other general corporation taxes; in some cases they are imposed in addition to these taxes. Six of the States which levy gross-receipts taxes on telephone companies specifically exempt these companies from corporate net income tax.

The rates of gross receipts taxes range from one-fourth of 1 percent to about 7 percent and only six States have rates in excess of 4 percent. The low-rate taxes may be imposed solely for the purpose of paying the cost of regulation while the higher rate taxes generally are levied in lieu of other taxes.

Local governments in about 15 States impose gross receipts taxes on telephone companies. Several States grant specific authority to local governments to tax public utilities including telephone companies. A maximum rate is generally specified. In other States local authority to impose such taxes is derived from general or specific business licensing powers or is found in home-rule or charter provisions. These taxes are most widely used by municipalities in California, Wisconsin, New York, Oklahoma, and Texas. Approximately 60 cities in New York impose a 1-percent tax; in other States the city rates range from 1 to 5 percent.

Consumers' excise taxes on sales of telephone service are imposed by approximately 25 cities in Florida and Virginia. In Florida cities, the rate may not exceed 10 percent of the amount of the consumer's bill. The most common rate in Virginia cities is 5 percent.

Most of the States in which utility taxes are extensively used by local governments also use this source of revenue at the State level.

A few of the States in which local governments lack authority to impose taxes on gross receipts of telephone companies or sales taxes on telephone services share with localities revenues secured from the State taxes. Some State-imposed taxes are collected and retained by the localities.

c. Revenues.—In fiscal year 1951, the Federal tax on local telephone service yielded about $290 million or six tenths of 1 percent of total internal revenue collections. Data on collections from State taxes on gross receipts of telephone companies and sales of telephone service are not available.

d. Coordination proposals.—Federal, State, and local overlapping taxes on local telephone service received attention in connection with post-World War II proposals of State and local officials that the Federal Government take immediate steps to reduce certain excise taxes most suitable for State and local administration.[98] In the April 1949 Conference on Intergovernmental Fiscal Problems sponsored by the Secretary of the Treasury, it was agreed that when conditions permit Federal excise tax revision, the interest of States and municipalities in the tax on local telephone calls should be recognized.[99]

States and localities have had no special administrative problems in connection with local telephone taxes. The location of businesses and residences determines the place where the service is purchased and it is generally not possible or convenient to avoid the tax by originating telephone calls in areas with lower tax rates. As a result, interstate differentials in tax rates do not cause problems of the type encountered under State liquor or tobacco taxes.

Although repeal or reduction of the Federal tax might increase revenue potentialities of the tax for States and localities, the existence of the Federal tax has not prevented them from exploiting this source of revenue. Should the Federal tax be repealed or reduced, States and localities would be unlikely to raise their taxes sufficiently to gain enough revenue to recapture revenue loss involved for the Federal Government. Many localities would require additional authority from their State governments before they could benefit directly from the reduction in the Federal tax by substantially increasing their telephone taxes. In only about one-third of the States have cities (and in a few cases, counties) authority to tax telephone companies and sales of telephone service. Where authority exists, the maximum rate which may be imposed is frequently specified.

Coordination policy with respect to the tax on local telephone calls is complicated by the fact that the Federal Government levies a parallel tax on long distance telephone calls. While these two excises have a separate history,[1] the fact that the tax on long-distance telephone calls is already much higher than that on local calls (25 percent compared with 15 percent) must be taken into account in any excise revision program.

Among the several considerations relevant to tax coordination in this area, one of the most significant is the general agreement that the tax on local telephone calls is one of the very few nonproperty tax

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[98] See, for example, the resolution adopted by the Ninth General Assembly of the States, December 1948.
[99] Treasury Press Release S-1066A, April 22, 1949.
[1] The local telephone tax was first enacted in 1941 whereas the tax on long distance telephone messages goes back to 1914.

sources which can be readily imposed at the city or county level and that increasingly more States are admitting their local jurisdictions into this tax field.

6. Electrical energy

From 1932 to 1951 the Federal Government levied an excise tax on sales of electrical energy for domestic and commercial purposes. Federal overlapping of State and local taxes in this area was eliminated by the repeal of this tax, effective November 1, 1951. Since 1940, the rate had been 3⅓ percent of the amount charged. Exemption had been provided for sales by publicly owned plants and by cooperatives engaged in rural electrification.

State and local practice with respect to taxation of gross receipts of electrical utilities and taxation of sales of electrcial energy is similar to that described above in connection with local telephone service. The electrical energy tax was one of the excises cited by State and local representatives as being particularly suitable for local administration. The repeal of the Federal tax will provide a practical opportunity for evaluating the effect of Federal withdrawal from a particular tax area on the exploitation of this revenue source by States and particularly local governments.

7. Stock transfer taxes

Although Federal-State overlapping in the field of stock transfer taxes is limited to six States, most stock transfers are subject to both a Federal and State tax. The stock transfer tax is of most significance in New York since approximately 90 percent of the aggregate value of all transactions in the United States are effected in that State.

a. Federal tax.—The Federal tax on stock transfers is 5 cents per $100 of par or face value or fraction thereof of the securities. If there is no par or face value, the rate is 5 cents per share. However, if the selling price is $20 or more per share, the rate is 6 cents per share, whether or not the stock has par or face value. The present rate has been in effect since 1940.

A tax on stock transfers was imposed by the Federal Government during the Civil War and the Spanish-American War. In each case, the tax was repealed a few years after the end of the war. The tax was again imposed in 1914 and repealed in 1916. It was reimposed by the Revenue Act of 1917 and has been in continuous effect since that time.

b. State taxes.—The six States which impose stock transfer taxes are Florida, Massachusetts, New York, Pennsylvania, South Carolina, and Texas. New York enacted its tax on security transfers in 1905, shortly after the repeal of the Federal tax of the Spanish-American War era. The New York tax is graduated according to the selling price of the shares: 1 cent per share when the selling price is less than $5, 2 cents when it is $5 to $10, 3 cents from $10 to $20, and 4 cents when $20 or more.

c. Revenues.—From the point of view of revenue, the stock transfer tax is one of the minor Federal excises. In fiscal year 1951, Federal collections from this tax amounted to $28.7 million. For the State of New York, however, the stock transfer tax is a relatively more important source of revenue. During the fiscal year ending March 31, 1951, New York received $31.2 million from its tax.

d. Administration.—Collection of the tax is facilitated by the fact that most transactions are handled by financial intermediaries, fiduciaries, or legal officers, such as banks, stock transfer agents, brokerage houses, and trustees, who aid the Government by seeing that stamps are affixed to securities they handle. Technical and legal questions as to the taxability of particular transactions are of some importance because of the variety of methods by which transfers are made and because some types of transfers are exempt.

e. Coordination.—Objections which have been offered against stock transfer taxation have been concerned not so much with the dual taxes as with the form of the taxes, particularly the Federal tax. It is argued that the Federal tax is inequitable and regressive in its double taxation of odd-lot transactions [2] and that it is disproportionately high on low-priced securities, especially if they have no par value or $100 par value. For instance, the Federal tax is $5 on 100 no par shares sold at 50 cents a share, or 10 percent of the amount of the sale. In ordinary cases, however, the combined Federal and New York State taxes are fairly nominal, amounting, for instance, to a little over three-tenths of 1 percent on a stock selling for $30 a share.

Both Federal and State stock transfer taxes have been levied for some years. While some complaints have been made, it is not at all clear that the dual levy has had an appreciable effect on the volume of security trading. This consideration, coupled with the facts that the stock transfer tax is relatively simple to administer (by means of stamps) and that its duplicate administrative and compliance cost aspects are not serious, has led most investigators of the stock transfer tax to conclude that the problems arising from overlapping taxation are not of major significance.

B. GENERAL SALES TAXES

A general sales tax has never been imposed by the Federal Government but currently is used by 31 States, the District of Columbia, and a number of local governments.[3] The taxes in eight States and the District of Columbia have been enacted since World War II. All the other State taxes were in existence before 1937. Table 28 lists the States utilizing sales taxes and the principal features of their taxes.

[2] In a round lot (usually 100 shares) transaction, the investor pays the Federal transfer tax only once, when he sells the securities. In an odd-lot transaction he pays tax twice, once when he buys from the odd-lot dealer and again when he sells. New York State exempts from the stock transfer tax sales or transactions by odd-lot brokers.

[3] Other State and local governments impose business license, occupation, or privilege taxes based on gross receipts, some of which are similar in effect to general sales taxes although different in form and legal incidence. Some of these are of limited coverage, applying only to gross receipts of retailers and wholesalers while others apply to all types of business activity.

TABLE 28.—*State sales taxes: Types and rates, Jan. 1, 1952*

State	Type of tax [1]	Use tax	Rates on retail sales: Tangible personal property	Rates on retail sales: Selected services: Amusements	Rates on retail sales: Selected services: Restaurants	Rates on retail sales: Selected services: Public utilities	Rates on other sales and services
			Percent	*Percent*	*Percent*	*Percent*	
Alabama	Retail sales	X	[2] 3	3	3	----	Automobiles, 1 percent.
Arizona	do	----	[2] 2	2	1	[3] 1	Wholesale sales of poultry and stock feed to consumers and meat packing, ¼ percent; advertising, printing and publishing, contracting, extracting and processing minerals and timber, 1 percent; hotel, apartment, and office rentals; storage, credit and collection agencies, 2 percent.
Arkansas	do	X	[2] 2	2	2	[4] 2	Printing and photography, rental of rooms by hotels, rooming houses, and tourist courts, 2 percent.
California	do	X	3	----	3	----	
Colorado	do	X	2	----	2	[5] 2	
Connecticut [6]	do	X	[2] 2	----	[7] 2	----	
Florida	do	X	[2] 3	[8] 3	3	([9])	Rental of living quarters (for less than 6 months), 3 percent.
Georgia	do	X	[2] 3	3	----	[10] 3	Rental of rooms to transients (for less than 90 consecutive days), 3 percent.
Illinois	do	----	[11] 2	----	----	([12])	
Indiana	Gross income	----	⅝	1¼	⅝	1¼	Dry cleaning and laundering, ⅝ percent; all other income, 1¼ percent, except income received from wholesaling, display advertising, and industrial processing, ½ percent.
Iowa	Retail sales	X	[13] 2	2	2	[4] 2	
Kansas	do	X	[2] 2	2	2	[4] 2	
Louisiana	do	X	[2] 2	2	2	----	Hotels, laundry and dry cleaning, automobile and cold storage, printing, and repair services to tangible personal property, 2 percent.
Maine	do	X	[2] 2	----	2	[14] 2	
Maryland	do	X	[15] 2	----	----	[16] 2	
Michigan	do	X	3	----	3	[16] 3	
Mississippi	General sales	X	[2] 2	([17])	2	[3] 2	Retail sales of pasteurized milk and farm tractors, 1 percent; wholesaling, ⅛ percent; contracting (when contract price exceeds specified amounts), 1 percent; extracting, and miscellaneous businesses (including cotton presses, gins and warehouses, hotels and tourist courts, laundry and dry cleaning, meat curing, photography, storage, termite and pest control services, transfer business, and specified repair services), 2 percent.
Missouri	Retail sales	([18])	[2] 2	2	2	[4] 2	
New Mexico	Gross receipts	X	[2] 2	2	2	[10] 2	Manufacturing, ¼ percent; wholesaling, ⅛ percent; extracting (other than gas, oil, and coal) and processing natural resource products, ½ percent; oil and gas production, 2⅛ percent (including the ⅛ percent regulatory tax); cutting timber, ¼ percent; contracting, real estate brokers, factors, agents, professional and personal services (but not including wages and salaries) and miscellaneous businesses, 2 percent.

See footnotes at end of table, p. 83.

Table 28.—State sales taxes: Types and rates, Jan. 1, 1952—Continued

State	Type of tax [1]	Use tax	Rates on retail sales				Rates on other sales and services
			Tangible personal property	Selected services			
				Amusements	Restaurants	Public utilities	
			Percent	*Percent*	*Percent*	*Percent*	
North Carolina [19]	General sales	X	3	3	3	---	Wholesaling, 1/20 percent.
North Dakota	Retail sales	X	2	2	2	[4] 2	
Ohio	do	X	[2] 3	---	3	---	
Oklahoma	do	X	[2 20] 2	2	2	[21] 2	Advertising (exclusive of newspapers, periodicals and billboards), printing, automobile storage, and rental of rooms by hotels, rooming houses, and tourist camps, 2 percent.
Rhode Island [22]	do	X	[2] 1	---	1	[5] 1	
South Carolina [23]	do	X	3	---	---	---	
South Dakota	do	X	2	2	2	[4] 2	
Tennessee	do	X	[2] 2	---	2	---	
Utah	do	X	2	2	2	[24] 2	
Washington	do	X	[2] 3	---	3	---	Transient lodging, 3 percent (Nov. 1, 1951–May 1, 1953).
	Gross receipts	---	¼	[25] ½	¼	---	Manufacturing (except flour, which is taxed at ⅛ percent), ¼ percent; wholesaling (except wheat, oats, corn, and barley, which are taxed at 1/100 percent), ¼ percent; extracting, printing, publishing, road and bridge construction, ¼ percent; professional and personal services rendered to persons (but not to personal property), and miscellaneous businesses, ½ percent.
West Virginia	Retail sales	X	[2] 2	2	2	---	All services except personal, professional and public utilities, 2 percent.
	Gross receipts	---	½	65/100	½	1.3–5.2	Manufacturing, 39/100 percent; wholesaling, 195/1000 percent; extracting, 1.3 to 7.8 percent; contracting, 2 percent; all service businesses (not including professional services and services rendered by an employee).
Wyoming	Retail sales	X	[2] 2	2	2	[11] 2	
District of Columbia	do	X	2	---	[26] 2	[27] 2	

[1] Types of tax:
(1) Retail sales: Applies to sales of tangible personal property at retail or to final consumer, and, generally, to specified services such as amusements, restaurant meals, hotel rooms, and public utility services.
(2) General sales: Applies to sales of tangible personal property at both wholesale and retail, and, in some cases, to specified services.
(3) Gross receipts: Applies to sales by manufacturer, wholesaler, and retailer, receipts from miscellaneous services and businesses, and, in some cases, professional and personal services.
(4) Gross income: Applies to all types of business and personal income.

[2] Applies to rentals as well as sales.

[3] Applies to all public utilities, including transportation of oil and gas by pipeline. In Mississippi, the rate on sales of industrial gas and electricity is 1 percent.

[4] Applies to all public utilities except transportation; in Missouri, to all except transportation of freight.

[5] Applies to gas, electricity, telephone, and telegraph.

[6] The 2-percent rate applies to the period July 1, 1949, to June 30, 1953.

[7] Meals selling for less than $1 are exempt.

[8] Admissions under 40 cents are exempt.

[9] Electricity, gas, water, and communications are specifically exempt.

[10] Applies to all public utilities except water.

[11] The 2-percent rate is applied to 98 percent of gross receipts.

[12] Utilities are exempt from the sales tax, but an equivalent tax of 3 percent is levied under a separate act.

[13] Sales of motor vehicles are specifically exempt from the sales tax but are subject to the use tax which is payable at the time of licensing the vehicle.

[14] Applies to electricity, gas, and water.

[15] Sales of motor vehicles are exempt from the sales tax but are subject to a 2-percent titling tax.

[16] Applies to electricity and gas only.

[17] Applies to billiard parlors and bowling alleys only. Admissions to theaters and other amusement places are subject to a special amusements tax.

[18] Applies only to new and used motor vehicles purchased outside the State.

[19] The maximum tax on any single article is $15.

[20] Sales of motor vehicles are specifically exempt, but a special excise tax of 2 percent is levied upon the transfer of ownership and the use of a vehicle registered in the State.

[21] Applies to all public utilities except water, transportation of freight, and transportation of persons where the fare does not exceed 15 cents.

[22] The rate is 2 percent for the period June 1, 1951, through May 31, 1952.

[23] Maximum tax limitations on any single article are: $25 when sale price is not in excess of $1,500, $40 when it is not in excess of $3,000, and $75 when it exceeds $3,000.

[24] Specifically excluded are street railway fares and intrastate movements of freight and express.

[25] The rate on operators of mechanical devices is 20 percent in the case of games of skill, or a combination of skill and chance, and 40 percent on games of chance only.

[26] Meals selling for $1.25 or less are exempt.

[27] Transportation and communication services are exempt.

General sales taxes are coming into increasing use by cities and counties. New York imposed its original levy in 1934; New Orleans in 1938. Since World War II, sales taxes have been imposed by Denver, Colo., more than 140 cities in California, and by a number of municipalities and counties in Alabama, Mississippi, and New York. Table 29 presents data on city and county sales taxes. With the exception of New York, the local sales taxes overlap similar State taxes.

TABLE 29.—*Municipal sales taxes,*[1] *Jan. 1, 1952*

City or county	Date of adoption	Rate	Taxable services	Major exemptions
ALABAMA		*Percent*		
Jasper	1946	[2] 1		Exemptions allowed under State sales tax.[4]
Colbert County	1949	[2] 1	Admissions	
Lauderdale County	1949	[2] 1	do	
Florence	1948	[3] ½	do	
Marion County	1949	[2] 1	do	
Tuscaloosa County	1947	[2] 1	do	
CALIFORNIA				In addition to exemptions allowed under State sales tax,[5] some cities specifically exempt sales made to or by the State or any political subdivision thereof; sales of property to be used in connection with Federal, State, and local public works; sales of drinks and meals on common carriers; and sales to common carriers of property to be used or consumed in operations outside the city.
103 cities	1946–51	½		
41 cities	1946–51	1		
2 cities	1948	¾		
1 city	1946	1½		
COLORADO				
Denver	1948	1	Intrastate telegraph services originating in city and local telephone service.	In addition to exemptions allowed under State sales tax,[6] the city exempts food and drinks whether sold by groceries or restaurants, and prescription medicine. Sales under 45 cents are exempt (State tax exempts sales under 20 cents).
LOUISIANA				In addition to exemptions allowed under State sales tax,[8] the cities exempt sales to certain charitable and religious institutions. Sales under 13 cents are exempt under the integrated bracket system for city and State sales taxes. (State tax exempts sales under 25 cents.)
Baton Rouge	1951	1	Services taxed under State sales tax.[7]	
New Orleans	1938	1		
MISSISSIPPI [9]				
Biloxi	1950	[10] ½	Services taxed under State sales tax.[11]	In addition to exemptions allowed under State sales tax,[12] the cities exempt wholesale sales, which are subject to State tax, and contracts on which a State tax has been paid.
Gulfport	1950	[10] ½		
Hattiesburg	1950	[10] ½		
Jackson	1950	[10] ½		
Laurel	1950	[10] ½		
Vicksburg	1950	[10] ½		
NEW YORK				
New York City	1934	3	Producing, fabricating, processing, and printing (excluding repair, alteration, and reconditioning) of tangible personal property, specified utility services.[13]	Sales under 17 cents (19 cents in New York City; 25 cents in Erie County); nonluxury foods and beverages; drugs and prescription medicines, eyeglasses, hearing aids, and artificial limbs; newspapers and periodicals; cigarettes; and sales to or by religious, charitable, and educational institutions.
Newburgh	1950	2		
Niagara Falls	1950	2		
Poughkeepsie	1949	2		
Syracuse	1951	2		
Erie Co	1947	1		
Monroe Co	1951	2		

See footnotes at end of table, p. 85.

TABLE 29.—*Municipal sales taxes,*[1] *Jan. 1, 1952*—Continued

City or county	Date of adoption	Rate	Taxable services	Major exemptions
VIRGINIA				
Bristol	1950	2		Sales under 15 cents.

[1] Data shown here are not necessarily complete. Furthermore, this tabulation does not include the business license, occupation, or privilege taxes based on gross receipts which are commonly levied by municipalities. Such taxes are similar in effect to retail sales taxes although different in form and legal incidence.

[2] In line with State practice, a lower rate is applied to sales of automotive vehicles. The rate is ¼ percent in all cases except Colbert County where it is ⅛ percent.

[3] The Lauderdale County rate in the city of Florence is ½ percent.

[4] Major exemptions are: Sales of machinery, parts, and replacements used in mining, quarrying, compounding, processing, and manufacturing, seed and fertilizer, farm products sold by producer, milk sold by distributors, newspapers and publications, textbooks, and sales of specified commodities subject to State selective excises (cigarettes, motor fuels, and alcoholic beverages).

[5] Major exemptions are: Sales of food for human consumption not served on premises of retailer, ice, newspapers, periodicals and publications, and sales of gasoline and public utility services (which are otherwise taxed).

[6] Major exemptions are: Sales of seed and feed, farm livestock, sales to Federal Government, State and city, and to religious and charitable organizations, sales subject to State selective excises, and sales subject to Federal excise of more than 12½ percent of retail price.

[7] Major exemptions are: Hotels, laundry and dry cleaning, automobile and cold storage, printing, and repair services to tangible personal property.

[8] Major exemptions are: Sales of farm products by producer, fertilizer, containers for farm products, trade-ins, newspapers, ship chandlers' supplies, sales to Federal Government, and sales of gasoline and public utility services (which are otherwise taxed).

[9] The cities are authorized to levy a tax equal to ¼ of the State tax. The State collects the city tax.

[10] The rate on sales of farm tractors, milk by pasteurizers, and industrial gas and electricity is ¼ percent.

[11] Major exemptions are: Hotels, laundry and dry cleaning, storage, cotton gins and warehouses, billiard parlors and bowling alleys, and miscellaneous repair services.

[12] Major exemptions are: Sales of cotton, fertilizer, seed, containers for farm products, farm products and livestock sold by producer, sales to hospitals and public schools, and sales by agricultural or cooperative associations.

[13] Meals costing $1 or more (including cover charges) are taxable in New York City.

While the general sales taxes are fundamentally taxes on sales of tangible personal property, they generally also apply to designated services. Because of their broad coverage, they usually apply to the commodities and services which are taxed by selective Federal excises. However, the combined tax rates as a result of overlapping are not accentuated as much as in the case of selective excises used by two or more levels of government because general sales taxes are imposed at substantially lower tax rates than selective excises.

In the service category, the Federal admissions tax and the Federal taxes on transportation and communications overlap State and local sales taxes which apply to these services. Eighteen States include admissions in their sales tax base while twenty-one States and the District of Columbia tax various types of public utility services under the sales tax.

Important Federal manufacturers' and retailers' excises which cover items included within the scope of the general sales taxes are those on automobiles and parts, tires and tubes, electrical appliances, furs, jewelry, luggage, and toilet preparations.

1. Federal-State-local coordination

The overlapping of State and local general sales taxes with Federal selective excises has not produced any important integration efforts. The separate governmental units have not felt that the tax rates imposed by the other political units interfered with their freedom in setting rates, probably because the general sales taxes have been kept at low rates. Coordination between Federal excises and general sales taxes appears to be limited to excluding one tax from the base when computing the amount of the other. Some of these exclusions are written into the laws; others stem from administrative interpretation.

In the case of Federal ad valorem excises, the general approach is to exclude from the taxable base State or local sales or excise taxes if stated as a separate charge. This approach is most significant in the case of the Federal retailers' excises and the admissions taxes.

State policy respecting the handling of Federal excises for sales-tax purposes varies. Federal manufacturers' excises generally are not deductible in computing gross sales or gross receipts for State sales-tax purposes, but some States (for example, Arkansas and Maryland) permit the deduction of these excises if separately stated in the sales price.[4] This provision is of practical value since, in the case of a number of commodities subject to Federal manufacturers' excise, it is the practice to bill retail purchasers separately for the tax.

In some States, if the manufacturer sells directly to consumers, the Federal manufacturers' excise may be excluded from the State tax base provided it is separately invoiced. Other States require that Federal manufacturers' excise be included in the State retail sales tax base even though the sale is made directly to the ultimate user and the tax is listed separately.

In most States, the Federal retailers' excises (on jewelry, furs, luggage, and toilet preparations) may be excluded from the taxable sales price if they are separately billed or invoiced. The same treatment applies to the Federal excises on services (admissions, transportation, and communication).

2. State-local coordination

Since local subdivisions of a State have only such taxing powers as are delegated to them by the States, duplication or overlapping of State and local general sales taxes arises only with the consent of the States.

State practice varies with respect to integration of State and local sales taxes. Although State sales tax administrators generally cooperate informally with their local counterparts, formal integration is in operation in only one State. There is some tendency, however, toward full-scale integration of tax bases and collection techniques. Mississippi initiated its local sales taxes with a complete scheme of integration. The city sales taxes in Mississippi are, in effect, supplements to the State tax collected by the State.[5] A Louisiana statute, enacted in 1950, authorizes the State collector of revenue and the Commission Council of New Orleans to enter into an agreement under which the State would collect, without cost to the city, the city's sales tax as well as certain other local taxes. To date no such arrangement appears to have been worked out. Statutory authorization was granted in 1951 to municipal tax officials in Alabama to check local sales tax returns against State sales tax returns.

California is considering several alternative methods of integration to replace the present system under which the city sales taxes are independently enacted and administered. The well-enforced State sales tax has helped greatly to reduce the cost of local sales tax ad-

[4] New York City also permits exclusion of Federal excises (both retailers' and manufacturers') provide the taxes are separately listed.

[5] A similar system exists in the Canadian Province of Quebec where extensive use is made of sales taxes by local governments as well as by the Province. The local taxes and the Provincial levy employ the same tax base and are collected by the Province through a single return. The municipal levies, minus a collection fee, are then returned to the localities.

ministration, but further consideration is being given to making the State administrative system even more useful and to avoid the extra administrative and compliance costs arising from differences in coverage of State and local taxes. Integration approaches being considered include a local supplement to the State tax, a State-collected but locally shared tax, and a tax-credit device under which the local tax would be credited against payments due the State.[6] The approach is indicative of a growing realization at the State-local level that appropriate coordination devices can contribute to public acceptance of overlapping taxes, the sparing of inconvenience for taxpayers, and the reduction of enforcement costs.

[6] California State Board of Equalization, What's Next in Local Sales Taxes? A Second Supplement to City Sales Taxes in California, January 1951.

APPENDIX B

(The tables in appendix B were submitted to the subcommittee by the staff of the Joint Committee on Internal Revenue Taxation on March 12, 1952.)

Federal, State, and local tax revenue, by type, for 1948, 1949, and after the full effect of the Revenue Act of 1951

[In millions of dollars]

	Percent of total	Total [1]	Individual incomes	Corporation incomes	Sales	Property	Death and gift	Social insurance	Licenses, permits, and others
Federal [2]	80	67, 684	25, 885	26, 230	9, 764	--------	760	4, 900	145
1950 State	11	8, 940	724	586	4, 670	311	171	1, 028	1, 450
1950 local	9	8, 002	64	7	484	7, 056	4	3	383
Total	100	84, 626	26, 673	26, 823	14, 918	7, 367	935	5, 931	1, 978
1949 Federal	71	37, 810	15, 461	11, 196	7, 780	--------	780	2, 466	128
1949 State	16	8, 349	593	641	4, 365	276	176	973	1, 325
1949 local	13	7, 417	51	7	451	6, 566	3	3	336
Total	100	53, 576	16, 105	11, 844	12, 596	6, 842	959	3, 442	1, 789
1948 Federal	74	40, 104	19, 219	9, 681	7, 661	--------	890	2, 519	133
1948 State	14	7, 791	499	585	4, 045	279	180	1, 059	1, 143
1948 local	12	6, 601	44	7	400	5, 850	3	2	295
Total	100	54, 496	19, 762	10, 273	12, 106	6, 129	973	3, 580	1, 571

[1] Because of rounding to nearest million, detail does not always add to totals.
[2] Liability in full year of operation under Revenue Act of 1951.

Duplicating and overlapping taxation between Federal Government and the States, by major sources

Tax source	Federal liability on full-year basis (millions)	Number of States using [1]	1950 [2] revenue produced in millions
I. Individual income	$25,885	31	$724
II. Corporation income and profits	26,230	33	586
III. Property		46	311
IV. Retailers' excise:			
1. Furs	65		
2. Jewelry	230		
3. Luggage	93		
4. Toilet goods	118		
V. Manufacturers' excise:			
1. Lubricating oils	120		
2. Gasoline and Diesel fuel	850	48	1,544
3. Tires }	149		
4. Inner tubes }			
5. Automobile truck chassis and bodies	163		
6. Other automobile chassis and bodies and motorcycles	654		
7. Parts and accessories for automobiles and motorcycles	150		
8. Electric, gas, and oil appliances	113		
9. Electric-light bulbs	30		
10. Radio sets, components }			
11. Phonographs and phonograph records }	110		
12. Musical instruments }			
13. Mechanical refrigerators, air conditioners, etc	80		
14. Matches	9		
15. Business and store machines	43		
16. Photographic apparatus and films	20		
17. Sporting goods	11		
18. Firearms, shells, and cartridges			
19. Fountain pens, mechanical pencils, and lighters	19		
VI. General sales [3]		28	1,670
VII. Admissions and amusements	367	33	14
VIII. Inheritance and estate	700	47	168
IX. Tobacco products	1,626	40	414
X. Stamp	100	13	29
XI. Alcoholic beverages	2,658	48	420
XII. Gift	60	12	3
XIII. Miscellaneous:			
1. Sugar	90		
2. Telephone, telegraph, cable, radio, leased wires, etc	396		
3. Local telephone service	340		
4. Transportation of oil—pipeline	27		
5. Transportation of persons	230		
6. Transportation of property	410		
7. Safe-deposit boxes	10		
8. Club dues and initiation fees	32		
9. Bowling alley, pool tables, etc	5		
10. Coin-operated devices	22		
11. Wagering	400		
XIV. Narcotics and marijuana and other	2		
XV. Processed vegetable oils	22		
XVI. Employment taxes	4,625		
XVII. Severance		23	211
XVIII. Unemployment compensation	275	48	1,028
XIX. Insurance companies		48	241
XXI. Public utilities		36	185
XXII. Parimutuels		22	103
XXIII. Miscellaneous selective sales and gross receipts		34	78
XXIV. License and privilege:			
1. Motor vehicles and operators		48	756
2. Corporations in general		48	176
3. Alcoholic beverages		48	77
4. Hunting and fishing		48	58
5. Occupations		48	16
6. Chain stores		18	4
7. Amusements		38	5
8. Other	145	48	111
XXV. Poll		8	6

[1] See attached table for the listing of States using these various tax sources.
[2] 1950 are latest data available for State revenues.
[3] The Federal Retailers' and Manufacturers' excise taxes can be considered as duplicating and overlapping the general sales taxes in the 28 States which employ that tax source.

27006—53——8

States Using Various Tax Sources

INDIVIDUAL INCOME TAX

Alabama	Louisiana	North Dakota
Arizona	Maryland	Oklahoma
Arkansas	Massachusetts	Oregon
California	Minnesota	South Carolina
Colorado	Mississippi	Tennessee
Delaware	Missouri	Utah
Georgia	Montana	Vermont
Idaho	New Hampshire	Virginia
Iowa	New Mexico	Wisconsin
Kansas	New York	
Kentucky	North Carolina	

CORPORATION INCOME TAX

Alabama	Louisiana	Oklahoma
Arizona	Maryland	Oregon
Arkansas	Massachusetts	Pennsylvania
California	Minnesota	Rhode Island
Colorado	Mississippi	South Carolina
Connecticut	Missouri	South Dakota
Georgia	Montana	Tennessee
Idaho	New Mexico	Utah
Iowa	New York	Vermont
Kansas	North Carolina	Virginia
Kentucky	North Dakota	Wisconsin

PROPERTY

All States except Oklahoma and Rhode Island.

GENERAL SALES OR GROSS RECEIPTS TAX

Alabama	Kansas	Oklahoma
Arizona	Louisiana	Rhode Island
Arkansas	Maryland	South Dakota
California	Michigan	Tennessee
Colorado	Mississippi	Utah
Connecticut	Missouri	Washington
Florida	New Mexico	West Virginia
Illinois	North Carolina	Wyoming
Indiana	North Dakota	
Iowa	Ohio	

ADMISSIONS AND AMUSEMENTS

Alabama	Louisiana	New York
Arkansas	Maryland	Pennsylvania
California	Massachusetts	Rhode Island
Colorado	Michigan	South Carolina
Connecticut	Minnesota	South Dakota
Delaware	Mississippi	Tennessee
Florida	Montana	Texas
Idaho	Nebraska	Vermont
Illinois	Nevada	Virginia
Indiana	New Jersey	Washington
Kentucky	New Mexico	Wisconsin

INHERITANCE AND ESTATE

All States except Nevada.

TOBACCO PRODUCTS

Alabama
Arizona
Arkansas
Connecticut
Delaware
Florida
Georgia
Idaho
Illinois
Indiana
Iowa
Kansas
Kentucky
Louisiana
Maine
Massachusetts
Michigan
Minnesota
Mississippi
Montana
Nebraska
Nevada
New Hampshire
New Jersey
New Mexico
New York
North Dakota
Ohio
Oklahoma
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Texas
Utah
Vermont
Washington
West Virginia
Wisconsin

STAMP TAX

Alabama
Florida
Kentucky
Maryland
Massachusetts
Minnesota
New York
Pennsylvania
South Carolina
Tennessee
Texas
Virginia
Washington

GIFT TAX

California
Colorado
Louisiana
Minnesota
North Carolina
Oklahoma
Oregon
Rhode Island
Tennessee
Virginia
Washington
Wisconsin

SEVERANCE

Alabama
Arkansas
California
Colorado
Florida
Idaho
Indiana
Kansas
Kentucky
Louisiana
Michigan
Minnesota
Mississippi
Montana
Nevada
New Mexico
Oklahoma
Oregon
South Dakota
Texas
Utah
Virginia
Wisconsin

PUBLIC UTILITIES

Alabama
Arizona
Arkansas
California
Connecticut
Delaware
Florida
Idaho
Illinois
Kansas
Kentucky
Louisiana
Maine
Maryland
Minnesota
Missouri
Montana
Nebraska
New Mexico
New York
North Carolina
North Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Texas
Vermont
Virginia
Washington
Wisconsin
Wyoming

PARI-MUTUELS

Arizona
Arkansas
California
Colorado
Delaware
Florida
Illinois
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
New Hampshire
New Jersey
New Mexico
New York
Ohio
Oregon
Rhode Island
Washington
West Virginia

CHAIN STORES

Alabama	Iowa	North Carolina
Colorado	Louisiana	South Carolina
Delaware	Maryland	South Dakota
Florida	Michigan	Tennessee
Georgia	Mississippi	Texas
Indiana	Montana	West Virginia

AMUSEMENTS (LICENSING)

Alabama	Maine	Oklahoma
Arkansas	Maryland	Oregon
Colorado	Massachusetts	Pennsylvania
Connecticut	Michigan	Rhode Island
Delaware	Minnesota	South Carolina
Florida	Missouri	South Dakota
Georgia	Nebraska	Tennessee
Idaho	Nevada	Texas
Illinois	New Mexico	Virginia
Indiana	New York	Washington
Kansas	North Carolina	West Virginia
Kentucky	North Dakota	Wisconsin
Louisiana	Ohio	

POLL

Alabama	Nebraska	Virginia
Indiana	Texas	West Virginia
Maine	Vermont	

APPENDIX C

(The tables in appendix C were submitted to the Subcommittee on Coordination of Federal, State, and Local Taxes by the representatives of State and local governments on March 12, 1952, as a part of their written memorandum. They have been renumbered for convenience.)

TABLE I.—*Federal, State, and local general revenue, 1946–51* [1]

[Amount in millions]

	1946	1947	1948	1949	1950	1951
Federal	$38,493	$37,936	$40,890	$38,602	$38,354	$50,446
State	7,198	8,481	10,025	10,986	11,863	(2)
Local	8,243	9,419	11,036	12,482	13,545	(3)
Total	53,934	55,836	57,224	56,512	57,565	----------

[1] Total figures exclude duplicating intergovernmental aid.
[2] Total estimated revenue for 1951 approximately $13.2 billion.
[3] Not available.

Source: Bureau of the Census, Governmental Revenue in 1950, August 1951. Comparable figures for State and local governments in 1951 not available yet. Federal figure for 1951 taken from Summary of Internal Revenue Collections for Fiscal Year 1951.

TABLE II.—*State taxes in 1950 and 1951*

[Amount in millions]

Tax	1951 [1]	Percent distribution	1950	Percent distribution
Sales and gross receipts	$5,269	59.0	$4,670	59.0
General sales or gross receipts	2,001	22.4	1,670	21.1
Motor fuels	1,710	19.1	1,544	19.5
Alcoholic beverages	469	5.2	420	5.3
Tobacco products	430	4.8	414	5.3
Insurance	254	2.8	241	3.0
Public utilities	199	2.2	185	2.3
Other	206	2.3	195	2.5
Licenses	1,358	15.2	1,227	15.3
Motor vehicles and operators	840	9.4	755	9.4
Corporations in general	211	2.4	176	2.4
Alcoholic beverages	77	.9	77	1.0
Hunting and fishing	63	.7	60	.7
Other	167	1.9	159	1.7
Income	1,492	16.7	1,310	16.6
Individual income [2]	810	(2)	724	(2)
Corporation net income [2]	682	(2)	586	(2)
Property	346	3.9	307	3.8
Death and gift	196	2.2	169	2.1
Severance	222	2.5	211	2.6
Other	49	.5	36	.4
Total	8,932	100.0	7,929	100.0

[1] Preliminary figures.
[2] Combined corporation and individual income taxes for from 1 to 4 States in each fiscal period shown are tabulated with individual income taxes.

Source: U. S. Bureau of the Census, State Tax Collections in 1951, August 1951.

TABLE III.—*Collections of State taxes subject to overlapping, 1951*

[In thousands of dollars]

	Individual income	Corporation net income	Death and gift	Tobacco products	Motor fuels	Alcoholic beverages	General sales	Admissions, amusements	Stock transfer
Number States using	31	33	47	41	48	48	31	33	13
Alabama	[1] 12, 903	[1] 903	336	7, 629	33, 207	1, 401	32, 972	136	584
Arizona	[1] 9, 558	[1] 190	125	1, 864	11, 633	2, 210	20, 382	--------	--------
Arkansas	4, 007	7, 879	86	5, 363	24, 850	5, 162	26, 018	13	--------
California	75, 516	98, 428	22, 338	--------	150, 230	18, 995	401, 118	154	--------
Colorado	12, 397	6, 535	2, 463	--------	22, 485	4, 147	30, 063	7	--------
Connecticut	--------	18, 646	6, 508	7, 854	20, 354	6, 268	33, 312	7	--------
Delaware	9, 087	--------	2, 474	1, 067	4, 269	1, 018	[2] 10	68	--------
Florida	--------	--------	2, 121	3, 666	57, 388	25, 410	47, 425	576	[3] 3, 221
Georgia	14, 806	21, 781	861	13, 067	53, 903	17, 100	[4] 8, 110	--------	--------
Idaho	6, 393	3, 500	253	1, 663	10, 962	849	--------	435	--------
Illinois	--------	--------	8, 618	27, 828	61, 602	25, 915	187, 556	481	--------
Indiana	--------	--------	3, 004	[5] 12, 980	43, 968	13, 754	112, 440	33	--------
Iowa	18, 582	2, 961	3, 649	5, 054	29, 787	3, 219	60, 588	--------	--------
Kansas	10, 224	3, 644	1, 122	4, 977	26, 952	4, 772	42, 968	--------	--------
Kentucky	14, 789	9, 400	2, 206	5, 110	39, 568	12, 584	--------	1, 550	[3] 650
Louisiana	[1] 19, 955	(1)	1, 537	18, 125	45, 931	16, 117	50, 337	73	--------
Maine	--------	--------	1, 691	5, 164	13, 326	2, 101	(6)	--------	--------
Maryland	20, 808	12, 283	2, 922	--------	25, 734	7, 013	30, 513	387	1, 203
Massachusetts	65, 798	[7] 26, 309	10, 453	26, 509	28, 079	23, 375	--------	18	[3] 315
Michigan	--------	--------	8, 700	23, 246	51, 478	6, 975	247, 584	39	--------
Minnesota	42, 898	19, 154	3, 757	11, 191	36, 834	15, 654	--------	15	126
Mississippi	4, 222	8, 841	291	6, 636	29, 256	3, 540	28, 441	913	--------
Missouri	[7] 26, 888	(1)	2, 584	--------	21, 897	6, 030	81, 238	--------	--------
Montana	4, 435	2, 615	696	2, 029	10, 742	1, 678	--------	47	--------
Nebraska	--------	--------	31	3, 898	23, 064	2, 834	--------	31	--------
Nevada	--------	--------	--------	784	4, 210	680	--------	1, 436	--------
New Hampshire	2, 548	--------	877	2, 676	5, 375	1, 039	--------	--------	--------
New Jersey	--------	--------	9, 553	18, 410	36, 853	18, 196	--------	46	--------
New Mexico	2, 056	1, 303	258	2, 428	15, 912	1, 674	20, 023	27	--------
New York	247, 692	167, 280	32, 426	58, 486	97, 175	52, 827	--------	1, 126	31, 183
North Carolina	30, 148	39, 101	3, 300	--------	64, 575	9, 511	50, 004	--------	--------
North Dakota	3, 812	1, 351	139	[5] 2, 644	6, 510	3, 344	11, 924	--------	--------
Ohio	--------	--------	3, 898	18, 951	82, 382	32, 535	160, 574	--------	--------
Oklahoma	8, 766	8, 289	3, 284	10, 510	39, 741	4, 301	38, 895	--------	--------
Oregon	35, 946	14, 538	2, 003	--------	28, 726	1, 305	--------	--------	--------
Pennsylvania	--------	91, 495	26, 194	43, 380	111, 871	42, 060	--------	52	691
Rhode Island	--------	[8] 6, 678	2, 015	3, 251	6, 536	2, 089	6, 684	12	--------
South Carolina	12, 016	13, 552	546	8, 097	32, 068	15, 399	(6)	404	789
South Dakota	--------	150	504	1, 716	7, 383	2, 671	18, 387	(9)	--------
Tennessee	3, 761	12, 201	2, 963	9, 730	45, 782	8, 396	49, 438	291	976
Texas	--------	--------	5, 233	29, 347	87, 279	15, 296	--------	256	271
Utah	5, 992	2, 485	303	897	8, 486	783	16, 401	--------	--------
Vermont	3, 542	1, 360	517	1, 787	5, 093	2, 758	--------	(10)	--------
Virginia	24, 784	25, 466	1, 841	--------	46, 978	7, 684	--------	9	1, 893
Washington	--------	--------	3, 120	9, 895	41, 472	1, 462	119, 102	4, 230	576
West Virginia	--------	--------	1, 247	2, 060	18, 451	2, 432	91, 250	--------	--------
Wisconsin	55, 735	53, 833	6, 367	10, 079	33, 857	13, 629	--------	13	--------
Wyoming	--------	--------	202	(6)	5, 038	575	7, 043	--------	--------
Total	[1] 810, 064	[1] 682, 151	195, 616	430, 048	1, 709, 707	468, 767	2, 001, 129	12, 885	42, 478

[1] Combined corporation and individual taxes as reported by 4 States—Alabama, Arizona, Louisiana, and Missouri—are tabulated with individual income taxes. Amounts shown as corporation tax for Alabama and Arizona represent only taxes on financial institutions.
[2] Back taxes only; not included with "Number of States using."
[3] Preliminary figures.
[4] Sales tax in effect only since April 1951.
[5] Includes related license taxes.
[6] This tax was enacted in 1951; thus no revenue shown for fiscal year ending June 30, 1951.
[7] Amounts for corporation excise taxes and surtaxes measured in part by net income and in part by corporate excesses are tabulated with license taxes.
[8] Corporate excess tax is included with corporation net income tax.
[9] Data not available.
[10] Amounts to less than $500.

Source: U. S. Bureau of the Census, State Tax Collections in 1951.

TABLE IV.—*National and State collections from overlapping tax sources,[1] fiscal years 1934, 1946, and 1950*

[Thousands of dollars]

1934

Tax	Total	National [2]	Percent	State	Percent
Income:					
Individual [3]	314, 496	228, 604	72. 7	35, 892	27. 3
Corporate	446, 977	395, 754	88. 5	51, 223	11. 5
Death and gift	204, 953	112, 167	54. 7	92, 786	45. 3
Alcoholic beverages	390, 765	258, 223	66. 1	132, 542	33. 9
Tobacco	448, 448	424, 693	94. 7	23, 755	5. 3
Gasoline	763, 846	202, 574	26. 5	561, 272	73. 5
Admissions [3]	19, 739	13, 496	68. 4	6, 243	31. 6
Stock transfer	76, 066	38, 066	50. 0	[4] 38, 000	50. 0
Total	2, 665, 290	1, 673, 577	62. 8	991, 713	37. 2
Total taxes					
Overlapping taxes as percentage of total taxes					

1946

Tax	Total	National [2]	Percent	State	Percent
Income:					
Individual [3]	10, 848, 687	10, 459, 548	96. 4	389, 139	3. 6
Corporate	12, 870, 366	12, 428, 616	96. 6	441, 750	3. 4
Death and gift	814, 044	668, 113	82. 1	145, 931	17. 9
Alcoholic beverages	3, 108, 059	2, 520, 736	81. 1	587, 323	18. 9
Tobacco	1, 364, 781	1, 165, 516	85. 4	199, 265	14. 6
Gasoline	1, 292, 450	405, 277	31. 4	887, 173	68. 6
Admissions [3]	366, 444	354, 060	96. 6	12, 384	3. 4
Stock transfer	59, 908	30, 369	50. 7	29, 539	49. 3
Total	30, 724, 739	28, 032, 235	91. 2	2, 692, 504	8. 8
Total taxes	42, 837, 000	38, 757, 000		4, 980, 000	
Overlapping taxes as percentage of total taxes	71. 7	72. 3		54	

1950

Tax	Total	National [2]	Percent	State	Percent
Income:					
Individual [3]	10, 321, 448	9, 597, 070	92. 9	724, 378	7. 1
Corporate	11, 440, 146	10, 854, 351	94. 9	585, 795	5. 1
Death and gift	876, 879	706, 227	80. 5	170, 652	19. 5
Alcoholic beverages	2, 638, 882	2, 219, 202	84. 1	419, 680	15. 9
Tobacco	1, 742, 812	1, 328, 464	76. 2	414, 348	23. 8
Gasoline	2, 071, 206	526, 732	25. 4	1, 544, 474	74. 6
Admissions [3]	357, 619	343, 391	96. 7	14, 228	3. 3
Stock transfer	53, 252	23, 823	45. 3	29, 429	54. 7
Total	29, 561, 550	25, 668, 566	86. 8	3, 902, 984	13. 2
Total taxes	44, 241, 289	36, 312, 289		7, 929, 000	
Overlapping taxes as percentage of total taxes	66. 8	70. 7		49. 3	

[1] Manufacturers' excise taxes, retailers' excise taxes, and State sales taxes are omitted because no breakdown of State collections to show overlapping is possible. Unemployment compensation taxes and Federal payroll taxes are also excluded.

[2] Excludes collections in the District of Columbia and the Territories.

[3] Federal figures for individual income and admissions taxes include only collections in States which also collect these taxes.

[4] Estimated.

Source: National: Annual Report of the Commissioner of Internal Revenue, fiscal years 1934, 1946, and 1950. State: 1934—Interstate Commission on Conflicting Taxation, Conflicting Taxation (Council of State Governments, 1935). No publication comparable to State Finances was issued by the Bureau of the Census during the depression years; the Interstate Commission obtained figures from State publications and State officials 1946—Bureau of the Census. State Finances, 1946, Compendium. 1950—Bureau of the Census. State Government Finances in 1950.

TABLE V.—*Federal State tax resources 1950*

[Millions of dollars]

OVERLAPPING TAXES

	Federal revenue	State revenue	Number of States using
Individual income	17, 153	724	31
Corporation income and profits	10, 854	586	33
Admissions and amusements [1]	413	14	33
Inheritance and estate	657	168	47
Tobacco products	1, 328	414	40
Alcoholic beverages	2, 204	420	48
Gasoline	527	1, 544	48
Stamp and documentary	85	29	13
Gift	49	3	12
Retailers' excise	410	----------	----------
General sales	----------	1, 670	28
Manufacturers' excise [2]	1, 310	----------	----------
Alcoholic beverage license	15	77	48

EXCLUSIVELY FEDERAL TAXES

	Revenue
Sugar	71
Telephone-telegraph, cable, and radio	290
Leased wires	22
Local telephone service [3]	247
Transportation of persons	229
Transportation of property	321
Trasportation of oil, pipe line	19
Safe-deposit boxes	10
Club dues and initiation	29
Bowling alleys, pool tables, etc.[1]	4
Coin-operated devices [4]	20
Narcotics and Marijuana	1
Processed vegetable oils	16

EXCLUSIVELY STATE TAXES

	Revenue	Number of States using
Motor vehicle and operators' fees	756	48
Property tax [5]	311	46
Insurance companies	254	48
Public utilities [3]	185	36
Parimutuels	103	22
Poll	6	8
Oleomargarine	3	8
License and privilege:		
Corporations in general	176	48
Hunting and fishing	58	48
Occupations and business	16	48
Chain store	4	18
Amusements	5	38
Others [4]	111	48

[1] The Federal tax on bowling alleys, pool tables, etc., is overlapped to a degree by similar State levies. State revenue from these sources, however, has been included under the amusement and admissions tax figures. The tax is not a significant revenue producer in the States.

[2] Includes \$85.7 million collected from 3½ percent electrical energy tax. This tax was repealed in Revenue Act of 1951. Receipts from State electric tax included under public utilities.

[3] The national local telephone service tax is duplicated by the State telephone tax. Receipts from the latter are not segregated but generally are included under State public-utilities taxes. In a number of instances, however, they are included under the property tax.

[4] The Federal tax on coin-operated devices has a counterpart in the States. State revenue, however, has been included generally under the category "Others" within State license and privilege taxes. For some States the tax on coin-operated devices is included in amusement tax receipts. The tax is not a significant one except in about three States.

[5] The figure of 46 States levying the property tax is misleading, since most of the States have abandoned the real-property tax as a State revenue source. However, for purposes of consistency U. S. Census Bureau categories have been followed, and these define the property tax to include ad valorem levies on such selected types of property as motor vehicles, public utilities, aircraft, intangibles, railroads, financial institutions, as well as general property taxes. (See U. S. Bureau of the Census, Sources of State Tax Revenue in 1950, November 1950.)

Sources: U. S. Treasury Department Annual Report of the Commissioner of Internal Revenue, fiscal year ended June 30, 1950 (Washington: 1951). U. S. Bureau of the Census, State Government Finances in 1950 (Washington: 1951).

TABLE VI.—*Comparison of Federal grants-in-aid to the States by main programs*

[In thousands of dollars]

	1946	1947	1948	1949	1950	1951
Agricultural experiment stations	7, 194	7, 190	7, 152	7, 355	12, 244	12, 259
Agricultural extension work	22, 947	26, 455	26, 206	29, 961	31, 026	31, 142
National forest fund	6, 273	8, 454	4, 626	6, 040	7, 814	8, 478
School-lunch program	50, 051	77, 048	65, 116	73, 502	81, 213	78, 245
Forest fire cooperation	----------	----------	9, 094	9, 276	9, 477	9, 907
Vocational education	20, 012	20, 493	26, 387	26, 146	26, 489	26, 652
Vocational rehabilitation	10, 839	12, 363	21, 688	18, 765	24, 742	16, 127
General health	10, 964	14, 382	11, 173	11, 213	14, 838	14, 234
Venereal disease	8, 748	12, 843	12, 608	13, 138	12, 399	9, 301
Tuberculosis control	5, 179	6, 853	6, 688	6, 786	6, 781	6, 350
Mental health	----------	----------	1, 653	2, 924	3, 294	3, 074
Cancer control	----------	----------	2, 155	2, 361	3, 246	3, 027
Cancer Institute	----------	----------	----------	----------	473	4, 483
Heart disease control	----------	----------	----------	----------	1, 770	1, 359
Heart Institute	----------	----------	----------	----------	264	1, 159
Maternal and child health	----------	----------	----------	11, 240	11, 235	12, 854
Old-age assistance	368, 524	491, 091	562, 374	718, 012	843, 161	825, 636
Permanently and totally disabled	----------	----------	----------	----------	----------	17, 456
Aid to dependent children	60, 127	108, 429	139, 584	189, 415	256, 087	316, 477
Aid to the blind	10, 482	14, 312	16, 401	20, 470	24, 169	26, 195
Hospital survey and planning	----------	----------	957	10, 762	57, 073	108, 204
Highway construction	74, 529	198, 774	318, 457	410, 397	428, 780	400, 050
Federal airport program	----------	----------	5, 149	30, 391	32, 783	30, 388
Total grants-in-aid [1]	847, 328	1, 174, 918	1, 592, 515	1, 854, 790	2, 234, 670	2, 280, 959

[1] These are the totals of all grant programs, and not the totals of figures shown in this table.

Sources: 1946–50 annual reports of Secretary of the Treasury. 1951 Combined Statement of Receipts, Expenditures, and Balances of the U. S. Government, for the Fiscal Year Ended June 30, 1951—U. S. Treasury Department.

TABLE VII.—*State excise rates as of Jan. 1, 1952*

State	Sales and gross receipts	Cigarettes (per pack)	Gasoline (per gallon)	Distilled spirits [1] (per gallon)
	Percent	*Cents*	*Cents*	
Alabama	3	3	6	----------
Arizona	[2] 2	2	5	$1.20
Arkansas	2	6	6½	[3] 2.50
California	3	----------	4½	.80
Colorado	2	----------	6	1.60
Connecticut	2	3	4	1.00
Delaware	----------	2	5	1.00
Florida	3	[4] 5	7	2.17–4.34
Georgia	3	3	6	1.00
Idaho	----------	3	6	----------
Illinois	2	3	4	1.00
Indiana	[5] ½–1¼	3	4	2.08
Iowa	2	2	4	----------
Kansas	2	3	5	1.00
Kentucky	----------	2	7	1.28
Louisiana	2	8	9	1.58
Maine	2	4	6	----------
Maryland	2	----------	5	1.25
Massachusetts	----------	5	4.3	2.25
Michigan	3	3	4.5	----------
Minnesota	----------	4	5	[6] 2.75
Mississippi	[7] 2	4	7	----------
Missouri	2	----------	2	.80
Montana	----------	4	6	----------
Nebraska	----------	3	5	1.20
Nevada	----------	3	[8] 5.5	.80
New Hampshire	----------	3	5	----------
New Jersey	----------	3	3	1.50
New Mexico	[9] 2	4	6	1.30
New York	----------	3	4	1.50
North Carolina	[10] 3	----------	7	----------
North Dakota	2	6	5	2.50
Ohio	3	2	4	----------
Oklahoma	2	5	[11] 6½	----------
Oregon	----------	----------	6	----------
Pennsylvania	----------	4	5	----------
Rhode Island	2	3	4	1.50
South Carolina	3	3	7	2.72
South Dakota	2	3	5	.75
Tennessee	2	5	7	2.00
Texas	----------	4	4	1.41
Utah	2	2	5	----------
Vermont	----------	4	5	----------
Virginia	----------	----------	6	----------
Washington	[12] 3	4	6½	----------
West Virginia	[13] 2	4	5	----------
Wisconsin	----------	3	4	2.00
Wyoming	2	2	5	----------
District of Columbia	2	1	4	.75

[1] Two States, Mississippi, and Oklahoma, prohibit the sale of liquors of alcoholic content above 3.2 percent and 4 percent, respectively. 16 States have liquor monopoly systems (Alabama, Idaho, Iowa, Maine, Michigan, Montana, New Hampshire, Ohio, Oregon, Pennsylvania, Utah, Vermont, Virginia, Washington, West Virginia, and Wyoming). Some of the monopoly States impose taxes, generally expressed in t rms of a percentag of retail price. Vermont, however, levies a tax of $2.80 per gallon. North Carolina has county-operated stores in counties which vote in favor of their operation and the State imposes a tax of 8½ percent of retail price.

[2] This rate is for retailers. Also gross income tax rates varying from ¼ percent for manufacturers to 1 percent for extractive industries and 2 percent for rentals.

[3] An additional 3 percent tax on retail receipts from the sale of distilled spirits was imposed in 1951.

[4] Municipalities may impose a like tax at the same rate with full credit given in such instances for the State tax

[5] Wholesale, ½ percent; retail, ⅝ percent; income from personal services, 1¼ percent; includes temporary additional rates imposed for veterans' bonus purposes.

[6] Includes 10 percent veterans' bonus surtax, effective July 1, 1949, to Dec. 31, 1958.

[7] Wholesale sales, ⅛ percent; water, gas, and electricity, 2 percent.

[8] Includes 1 cent per gallon additional tax, optional with individual counties, but adopted by all.

[9] Wholesalers, ⅛ percent.

[10] Wholesale merchants, 1/20 percent.

[11] An add tional excise of 0.08 cent per gallon is imposed on all gasoline, naptha, and motor fuel manufactured or delivered in the State for resale to consumers.

[12] Also has a gross income tax with rates varying from 1/100 percent to ½ percent, according to type of business, on which a 20-percent surtax was imposed in 1951.

[13] Also gross income tax of 15/1000 percent to 7.8 percent, according to type of business, less 10 percent of total net balance of taxes due.

Source: Federation of Tax Administrators, 1952.

TABLE VIII.—*Municipal nonproperty taxes—States in which at least 1 city is using selected nonproperty taxes, July 1, 1951*

	Admission and amusement taxes (1)	Business gross receipts taxes (2)	Cigarette and tobacco taxes (3)	Deed transfer taxes (4)	Garbage and refuse service charges (5)	Gasoline taxes (6)	Income taxes (7)	Liquor and alcoholic beverage taxes (8)	Motor vehicle taxes (9)	Occupancy taxes (hotels) (10)	Poll and street taxes (11)	Public utility gross receipts taxes (12)	Sales taxes (13)	Sewer service charges (14)
Alabama	X	X	X	----	X	X	----	X	X	----	----	X	X	X
Arizona	----	----	----	----	X	----	----	----	----	----	----	----	----	X
Arkansas	----	X	----	----	X	----	----	----	X	----	----	----	----	X
California	X	X	----	----	X	----	----	----	----	----	----	X	X	X
Colorado	----	X	X	----	X	----	----	----	----	----	X	X	X	X
Connecticut	----	----	----	----	----	----	----	----	----	----	X	----	----	X
Delaware	----	----	----	----	----	----	----	----	----	----	----	----	----	----
Florida	X	X	X	----	X	X	----	----	----	----	----	X	----	X
Georgia	X	X	----	----	X	----	----	X	X	----	X	X	----	X
Idaho	----	----	----	----	----	----	----	----	----	----	----	----	----	X
Illinois	X	----	----	----	X	----	----	----	X	----	----	[1] X	[2] X	X
Indiana	----	----	----	----	X	----	----	----	----	----	----	X	----	X
Iowa	----	----	----	----	X	----	----	----	----	----	----	X	----	X
Kansas	----	----	----	----	X	----	----	----	----	----	----	X	----	X
Kentucky	----	X	----	----	X	----	[3] X	----	X	----	----	----	----	X
Louisiana	X	X	----	----	----	----	----	X	----	----	----	X	X	X
Maine	----	----	----	----	----	----	----	----	----	----	X	----	----	X
Maryland	----	X	X	[4] X	X	----	----	X	----	----	----	X	----	X
Massachusetts	----	----	----	----	X	----	----	----	----	----	X	----	----	X
Michigan	----	----	----	----	X	----	X	----	----	----	----	X	----	X
Minnesota	----	----	----	----	X	----	----	----	----	----	----	X	----	X
Mississippi	----	----	----	----	----	----	----	----	----	----	----	X	X	X
Missouri	X	X	X	----	X	X	----	----	X	----	----	X	----	X
Montana	----	X	----	----	X	----	----	----	----	----	X	----	----	X
Nebraska	----	----	----	----	X	----	----	----	----	----	----	X	----	X
Nevada	----	X	----	----	X	----	----	----	----	----	----	X	----	----
New Hampshire	----	----	----	----	----	----	----	----	----	----	----	----	----	X
New Jersey	[5] X	X	----	----	X	----	----	----	----	[5] X	----	X	X	X
New Mexico	----	X	----	----	X	X	----	----	----	----	----	X	----	X
New York	X	X	----	----	X	----	----	----	X	X	----	X	X	X
North Carolina	----	X	----	----	X	----	----	----	X	----	----	X	----	X
North Dakota	----	----	----	----	X	----	----	----	----	----	----	X	----	X
Ohio	X	----	----	----	X	----	X	----	----	----	----	----	----	X
Oklahoma	----	----	----	----	X	----	----	----	----	----	----	X	----	X
Oregon	X	X	----	----	----	----	----	----	----	----	----	X	----	X
Pennsylvania	X	X	----	X	X	----	X	----	X	----	X	X	----	X
Rhode Island	----	----	----	----	----	----	----	----	----	----	X	----	----	----
South Carolina	X	X	----	----	----	----	----	----	----	----	----	X	----	X
South Dakota	----	----	----	----	----	----	----	----	----	----	----	----	----	----
Tennessee	X	X	----	----	X	----	----	X	X	----	----	X	----	X
Texas	----	X	----	----	X	----	----	----	----	----	----	X	----	X
Utah	----	X	----	----	X	----	----	----	----	----	----	X	----	----
Vermont	----	----	----	----	----	----	----	----	----	----	X	----	----	----
Virginia	X	X	X	----	X	----	----	----	X	X	----	X	----	X
Washington	X	X	----	[6] X	X	----	----	----	----	----	----	X	----	X
West Virginia	X	X	----	----	X	----	----	[7] X	----	----	----	X	X	X
Wisconsin	----	----	----	----	X	----	----	----	----	----	----	----	----	----
Wyoming	----	X	X	----	X	X	----	----	----	----	----	X	----	X
Total	17	26	7	3	36	5	4	6	11	3	9	33	9	41

[1] In general public utility taxes based on gross receipts are not used in Illinois. However, some cities, such as Chicago, have sold utility franchises whose value has been measured by a percentage of gross receipts, and annual franchise payments are made on that basis.

[2] Illinois cities may levy a sales tax if approved at a local referendum, but none have done so to date.

[3] The income-payroll tax of Louisville, Ky., the only Kentucky city having this tax at present, is levied as an occupational license tax. Since it is identical with other municipal income taxes, although levied under a different type of authority, it is included under municipal income taxes.

[4] One city, Baltimore, uses this tax.

[5] A 3-percent sales tax is permitted for fourth-class cities in New Jersey, with only Atlantic City now using this tax.

[6] Washington permits counties to impose a tax on real-estate transfers with the proceeds going to schools.

[7] When used, a 2-percent tax on State liquor store sales.

NOTE.—The above chart lists admission and amusement taxes only if levied other than on a flat-rate license basis. Liquor and alcoholic beverage taxes are listed if on other than a flat-rate license basis. Motor vehicle taxes are listed if the tax is based on other than an ad valorem basis. Public utility taxes include amounts paid for franchise rights if the amount of the franchise is measured in terms of gross receipts. State grants-in-aid, and/or State shared taxes, are common to all States as are parking meter receipts.

TABLE IX.—*Municipal nonproperty taxes, average tax rates and per capita yield, by type of tax and population groups, cities with 25,000 population and over, 1950*

Tax	Over 500,000		250,000 to 500,000		100,000 to 250,000		50,000 to 100,000		25,000 to 50,000	
	Average tax rate	Annual per capita yield	Average tax rate	Annual per capita yield	Average tax rate	Annual per capita yield	Average tax rate	Annual per capita yield	Average tax rate	Annual per capita yield
Total general revenues [1] (all cities using nonproperty taxes).		$84.90		$54.84		$46.32		$41.59		$43.77
Property taxes [1] (all cities using nonproperty taxes)	3.084% [2]	42.35	2.584%	27.65	2.937%	22.63	2.856%	22.40	2.857% [3]	19.92
Payroll-income tax	0.85%	14.89	0.83%	13.73	0.58%	6.63	1.00%	11.22	0.65%	7.05
Sales tax	1.17%	13.35	0.67%	5.82	0.63%	6.68	0.86%	5.96	0.75%	7.83
Gross receipts business license	0.71%	6.21	0.83%	3.85	0.66%	3.89	0.32%	3.49	0.33%	3.01
Motor fuel tax	2.5¢ gallon	5.30	1.5¢ gallon	2.48	1.0¢ gallon	3.00	1.0¢ gallon	1.70	0.94¢ gallon	1.84
Cigarette and tobacco tax	1.3¢ pack	1.77	2.0¢ pack	2.14	3.8¢ pack	6.36	2.7¢ pack	2.95	4.1¢ pack	5.74
City liquor tax		2.09		3.40		2.18		.61		2.45
Public utility tax	2.75%	1.81	2.71%	2.03	3.34%	2.21	2.90%	1.56	3.29%	1.85
City motor vehicle tax		2.37		.76		1.01		1.18		1.05
City admission tax	4.57%	1.00	3.33%	.65	5.60%	.89	6.60%	.87	5.10%	.80
Property taxes of cities not using taxes studied		74.89		47.20		43.07		40.94		36.19
Total general revenue of cities not using taxes studied		116.12		63.18		80.40		64.77		58.48

[1] Based on Bureau of Census data where available. For other cities based on such sources as official State reports, annual financial reports, taxpayer association reports, and reports of bureaus of governmental research.

[2] Average of tax rates for cities over 1,000,000 and those with populations of 500,000 to 1,000,000. Average property tax rates are those determined by the Detroit Bureau of Governmental Research and are the adjusted rates.

[3] The tax rate shown is for the 30,000 to 50,000 population group.

APPENDIX D

Selected Bibliography on Federal-State-Local Tax Relations

Prepared for the Subcommittee by the Legislative Reference Service of the Library of Congress

Anderson, William. Allocate the Admissions Tax to the Communities in Which It Is Collected. *In* 1945 Proceedings of the National Tax Association, Sacramento, National Tax Association, 1945. Pp. 177–186. HJ2240.N3.
Advocates continued Federal imposition but allocation of receipts, after administration costs, to the local unit in which collected. Presents table giving sources of admissions tax receipts by States. Similar article of author appears in June 1945 issue of *Minnesota Municipalities* on pages 219–223.

Bingham, Jo. Home Revenue for Home Rule. *Tax Review* (N. Y.) Jan. 1948, v. 9, no. 1:1–4. Unbound.
Advocates that admissions tax be eliminated as a revenue source of both the Federal and State governments, and be left exclusively to the local units.

Browne, Rollin. Federal-State Coordination. *Cornell Law Quarterly* (Ithaca) Nov. 1945, v. 31: 182–204. Law.
Describes the expansion of the sphere of federal taxation, with a consequent interference with the revenue sources of the state and local governments. Considers briefly some proposals for coordination. Offers own ideas concerning coordination.

———. Postwar Taxes. Bulletin of the National Tax Association (Lancaster) May 1945, v. 30, no. 8: 226–228. HJ2240.N313.
Outlines a system of coordination of federal and state taxes. Article also in *Commercial and Financial Chronicle* (N. Y.) Apr. 12, 1945, v. 161: 1601, 1629.

Canada. *Royal Commission on Dominion-Provincial Relations.* Report of the Royal Commission. Ottawa, S. O. Patenaude, Printer to the King, 1940. 3 v. and appendices. JL27.A35.
An exhaustive study on the Dominion-Provincial relations in Canada.

Chapman, Alger B. A Federal-State Fiscal Agency as an Instrument of Coordination. *In* 1946 Proceedings of the National Tax Association. Sacramento, National Tax Association. 1946. Pp. 277–281. HJ2240.N3.
Says the problem of integrating and coordinating Federal and State fiscal policies and tax systems is one primarily of organization. Proposes organization concerned with two phases of coordination, namely: (1) broad policies (2) administrative problems.

Cogburn, Max O. The Credit Allowable Against the Basic Federal Estate Tax for Death Taxes Paid to State Statutes Enacted to Take Advantage Thereof—Constitutional Difficulty and Some Suggested Solutions. *North Carolina Law Review* (Chapel Hill) February 1952, v. 30, no. 2: 123–143. Law.
Describes the background of and the cases arising under the constitutional difficulty. Examines certain solutions suggested to avoid the difficulty.

Conlon, Charles F. Harmonizing Federal, State, and Local Income Tax Administration. *In* Income Tax Administration. New York, Tax Institute, 1948. p. 350–358. HJ4652.T37.
Criticizes the overlapping of the income taxes from the standpoint that there is an undue additional cost of compliance on the part of the taxpayer and an excessive cost of multiple uncoordinated activities for the various levels of government. Suggests some recommendations for improvement.

Council of State Governments. Federal-State Relations. Wash., U. S. Govt. Print. Off., 1949. 297 p. (81st Cong., 1st Sess.; Senate Doc. No. 81) JK325.C63.
This report considers the relationships of the various functions and activities performed by the federal and state governments.

Cox, Fred L. The State's Power and Constitutional Limitations to Tax: A Supplement. *Taxes* (Chicago) Nov. 1952, v. 30: 910–915. HJ2360.T4.
Examines several court decisions which illustrate the development of the law in regard to this problem. Discusses it in light of the uniformity clause, commerce clause, and the sixteenth amendment.

Ecker-Racz, L. L. Intergovernmental Tax Coordination. Record and Prospect. *National Tax Journal* (Lancaster) Sept. 1952, v. 5, no. 3: 245–260. HJ2240.N313.
Discusses (1) the fiscal outlook for the federal, state, and municipal governments; (2) two general methods of intergovernmental coordination; and (3) the coordination now in progress in respect to the various types of taxes.

Fitch, Lyle C. Taxing Municipal Bond Income. Berkeley, University of California Press, 1950. 161 p. HJ4653.E9F5. 1950a.
The author states that the main purpose of the study is to establish a basis for a compromise on the problem rather than to attack or defend the immunity. Includes a bibliography at the end of the study.

[Graves-Edmonds Plan] Proceedings of the National Tax Association. Sacramento, National Tax Association. 1933, p. 30–39; 1934, p. 161–187; 1936, p. 254–266.
Three articles which present principles, pro and con discussions, and considerations of the "Committee of the National Tax Association on Fiscal Relationships of Federal and State Governments" of this plan proposed for solving problems of overlapping taxes.

Groves, Harold M. New Sources of Light on Intergovernmental Fiscal Relations. *National Tax Journal*, Sept. 1952, v. 5, no. 3: 234–238. HJ2240.N313.
We should look at the Scandanavian countries for some of the answers to intergovernmental fiscal relations. The intergovernmental problems of Switzerland, Great Britain, Germany, and Canada are of the same nature as ours in the U. S.

Heller, Walter W. Recent Canadian and Australian Experience in Intergovernmental Fiscal Relations. *In* 1946 Proceedings of the National Tax Association, Sacramento, National Tax Association, 1946. pp. 297–304. HJ2240.N3.
Highlights their contrasting experiences by discussing them in terms of (1) the development of intergovernmental machinery for coordination and (2) the efforts to eliminate conflicts in the field of income taxation.

Interstate Commission on Conflicting Taxation. Conflicting Taxation. Chicago, The American Legislators' Association and the Council of State Governments, 1935. 212 p. (1935 Progress Report of the Commission). HJ3258.A215.
Discusses the general and specific problems of overlapping taxes, and the solutions thereof. Presents a brief outline of principles to be followed in any study of resolving tax conflicts. Also contains certain miscellaneous matters in the appendices. The study includes nearly 100 tables.

Joint Committee of the American Bar Association, National Tax Association, and National Association of Tax Administrators. The Coordination of Federal, State, and Local Taxation. The Joint Committee, 1947. 103 p. HJ2377.J6.
An analysis of the problems of coordination, with recommendations for solving these problems. This detailed study presents the majority viewpoint of the members of the committee and also the many individual dissenting opinions on particular recommendations, which appear as footnotes.

Kaiser, Arthur R. Coordination of Federal and Local Revenue Sources. *Bulletin of the National Tax Association* (Lancaster) Nov. 1944: 34–43. HJ2240.N313.
Describes the tax burden imposed by all three levels of government. Presents a positive program of distributing the burden of necessary expenditures by the various forms of governments so that a minimum of overlapping of taxes will exist.

Lent, George E. The Admissions Tax. *National Tax Journal* (Lancaster) Mar. 1948, v. 1: 31–50. HJ2240.N313.
Latter part of article (p. 45–50) concerned with the intergovernmental problems of and proposed methods of coordination of the admission tax. Other part of article concerned with federal and state admission tax generally.

Martin, James W. Jurisdiction to Tax in the United States. *Bulletin for International Fiscal Documentation* (Amsterdam) v. 3, no. 2–3; 55–71. HJ101.I65.

First part of the article (p. 55–63) is concerned with the overlapping of federal, state and local taxes. Shows how the Federal Constitution is a permissive factor for such a conflict. Discusses proposed solutions.

Maxwell, James A. The Fiscal Impact of Federalism in the United States. Cambridge, Harvard University Press, 1946. 427 p. HJ257.M3.

Latter part of the book (Chapters 13–17) considers the problem of intergovernmental tax conflicts. The problems are discussed in chapters on (1) taxation of income, (2) commodity taxation, (3) death taxes, (4) government instrumentalities, and (5) a concluding chapter.

———. Recent Developments in Dominion-Provincial Fiscal Relations in Canada. New York, National Bureau of Economic Research, Inc., 1948. 56 p. H11.N2432 no. 25.

This study of the recent Canadian experience in the revision of financial relations between the Dominion and provinces was made in preparation of a proposed larger study of federal-state relations in the U. S.

Newcomer, Mabel. The Federal, State, and Local Tax Structure after the War. *Proceedings of the American Philosophical Society* (Philadelphia) June 16, 1944, v. 88, no. 1: 50–54. Q11.P5.

Brief discussion of the development of the spheres of taxation of the three forms of government. Discusses what she deems the most important conflicts from the viewpoint of whether exclusive jurisdiction can be given to either the Federal or State government.

Newcomer, Mabel. Selected Bibliography on Intergovernmental Fiscal Relations. October 12, 1942. 83 p. (Mimeographed) Z7164.F5N4.

A very comprehensive bibliography covering the period prior to 1943. It includes references found most useful by the Treasury's Committee on Intergovernmental Fiscal Relations (for whom it was originally prepared). The author also states there was a special effort to include all points of view on controversial issues. The bibliography is divided into eleven subject headings.

Pierce, Dixwell L. Why Federal Taxes Concern the States. *In* 1943 Proceedings of the National Tax Association. Sacramento, National Tax Association, 1943. p. 443–450. HJ2240.N3.

Includes a brief discussion on how changing conditions and the nature of our Constitution are important factors in the development of overlapping taxes.

Pillsbury, W. H. *and* others. Federal State and Local Tax Conflicts *Transactions of the Commonwealth Club of California* (San Francisco) May 12, 1947, v. 41, no. 4: 149–169. JK8702.C6.

A set of five articles concerned with the problems and proposals for their solution, pros and cons of a fiscal commission, problems of a large taxpayer, and effect on State government.

Reed, Thomas H. Federal State Local Fiscal Relations. Chicago, Municipal Finance Officers Assn., 1942. 65 p. HJ9145.R4.

This study demonstrates the problems the local governments face in producing sufficient revenue to cover increasing expenses. It was prepared to serve as background information for those who are planning any course of action to be followed in improving federal-state-local fiscal relations.

U. S. *Civil Aeronautics Board.* Multiple Taxation of Air Commerce. Wash., U. S. Govt. Print. Off., 1945. 158 p. TL553.U6 1945.

Primarily an interstate problem, although Federal overlapping of taxes increases the problem.

U. S. *Congress. Senate. Committee on Expenditures in the Executive Departments.* National Commission on Intergovernmental Relations. Hearings, 1949. Wash., U. S. Govt. Print. Off., 1949. 267 p. 81st Cong., 1st Sess. JK325.A35 1949.

Hearings held on certain bills providing for a National Commission to study intergovernmental fiscal relations.

U. S. *Congress. Joint Committee on Reduction of Nonessential Federal Expenditures.* Reduction of Nonessential Expenditures. Wash., Govt. Print. Off., 1952. 319 p. (82d Cong., 2d Sess.; Senate Doc. No. 101) HJ275.A52 1952a.

A detailed statistical report of the Federal grants-in-aid to the states, territories, and the District of Columbia for 1934–1951. This report is factual without recommendations.

U. S. *Congress. Senate. Committee on Expenditures in the Executive Departments.* Intergovernmental Relationships Between the U. S. and the States and Municipalities. Wash., U. S. Govt. Print. Off., 1951. 57 p. (82d Cong., 1st Sess., Senate Report No. 94) HJ275.A53 1951a.

Besides a general history and discussion of the grants in aid program, this gives the amounts distributed to the specific states and territories in 1949, 1950, and the apportionments for 1951. Under each state is a detailed breakdown of the specific agencies and purpose of the grant.

U. S. *Congress. Senate. Special Committee on Taxation of Governmental Securities and Salaries.* Taxation of Governmental Securities and Salaries. Hearings, 1939. Wash., U. S. Govt. Print. Off., 1939. 3 v. HJ4653.P83A5 1939.

Investigation with respect to the taxation and the exemption from taxation of (1) income from Federal securities and salaries by the State governments, and (2) income from State and local securities and salaries by the Federal government.

U. S. *Congress. Senate. Special Committee on Taxation of Governmental Securities and Salaries.* Taxation of Governmental Securities and Salaries. Wash., U. S. Govt. Print. Off., 1940. 73 p. (76th Cong., 3d Sess., Senate Report No. 2140) HJ4653.P83A5 1940.

Presentation of both the majority and minority views.

U. S. *Dept. of Justice.* Taxation of Government Bondholders and Employees. Wash. U. S. Govt. Print. Off., 1939. 227 p. HJ4653.G6 A5 1939.

A comprehensive study which is based on Supreme Court decisions and the interpretation of the Sixteenth Amendment and justifies the validity of federal taxation of federal, state and municipal bonds and the salaries of state and municipal employees and (2) state taxation of income from federal bonds and salaries of federal employees. Study is extensively documented. This is the second printing originally printed in 1938. Also has six volumes which form the appendix (catalog number of appendix is HJ4653.G6A5 1938 Appx).

U. S. *Dept. of Justice.* Taxation of Government Bondholders. Wash., U. S. Govt. Print. Off., 1942. 6 p. HJ4653.G6A5 1942.

Supplementary statement to the study of the Justice Dept. made in 1938 and reprinted in 1939.

U. S. *Treasury Dept. Committee on Intergovernmental Fiscal Relations.* Federal, State and Local Government Fiscal Relations. Wash., U. S. Govt. Print. Off., 1943. (78th Cong., 1st Sess., Senate Doc. No. 69) HJ257.A5 1943.

This is the best and most comprehensive study of the problems of overlapping taxes. It has been partially brought up to date by later publications of the Treasury.

U. S. *Treasury Dept. Tax Advisory Staff of the Secretary.* Federal-State-Local Tax Coordination. Wash., U. S. Govt. Print. Off., 1952. 87 p. HJ2381.A54 1952c.

Examines the development of intergovernmental tax problems, presents information on the overlapping taxes, and discusses the various kinds of coordination methods. Brings up to date the discussion of the problem of coordination as considered in its earlier report in 1943.

Welch, Ronald B. The Taxation of Air Carriers. *Law and Contemporary problems* (Durham) Winter-Spring, 1946, v. 11, no. 3:584–597. Law.

Discusses multiple taxation by the States and federal and state overlapping of taxes on air carriers. Describes the background and recommendations of the Civil Aeronautics Board's study of multiple taxation.

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